

DOING BUSINESS IN NEPAL 2024



ABOUT REANDA BIZ SERVE

Reanda Biz Serve, a network firm of Reanda International, is Nepal's leading business advisory and consulting firm that helps enterprises sail smoothly towards their goal. Through our integrated service lines and our deep sectoral knowledge, we help our clients to capitalize on new opportunities, assess and manage risk to deliver responsible growth.

Our high-performing, multidisciplinary team help our clients fulfill regulatory requirements, minimize business risk, plan appropriate taxation and secure information system.

We are committed to quality and service excellence in all that we do, bringing our best to clients and earning the public trust through our action and behaviours both professionally and personally.

ABOUT REANDA INTERNATIONAL

Reanda International is an international accounting network to collaborate with independent member firms from around the world. These member firms provide assurance, tax consulting and specialist business advisory to privately held business and transnational conglomerates.

Reanda International is a full member of Forum of Firms effective from 1 January 2022. Reanda International Network is represented by 58 global presence with more than 5000 employees, 240 partners working across around 144 offices worldwide to provide high quality service. According to the International Accounting Bulletin (IAB) 2022 World Survey published in March 2023, Reanda International is ranked 25th among the world's leading international networks.

With more than 11 years of unwavering commitment, we take pride in being recognized as a trusted advisor to countless businesses and stakeholders, both in Nepal and across the globe. The prosperity of Reanda Biz Serve is intimately connected to the high quality of services we deliver to our clients. Attaining excellence requires ongoing effort, steadfast dedication, and a continual investment in both our personnel and technology.

In line with our commitment to keeping stakeholders informed, we are pleased to present the seventh consecutive edition of the investor's guide, titled 'Doing Business in Nepal 2024.' This guide aims to provide essential insights into the current economic landscape, investment climate, updated tax regulations, regulatory requirements, and the overall business framework. It serves as a valuable resource for our existing clients and potential foreign investors, offering information on engaging with the Nepalese economy, adhering to regulatory requirements, potential investment sectors, repatriation of income, and other key considerations.

It's important to note that the content in this guide, unless stated otherwise, reflects the legislation and conditions as of 31 December 2023. We strongly recommend investors seek advice from professionals, including independent certified experts, consultants, and legal counsels, before finalizing investment decisions. The professionals at Reanda Biz Serve are always available to provide necessary assistance.

Lastly, we invite readers to provide constructive feedback and suggestions, which we can incorporate into our future publications. Your input is invaluable to us. Thank you for trusting Reanda Biz Serve.

Yours Sincerely,



Bharat Rijal
Chairman
1 January 2024



Chairman's Message



Certifications and Accreditation



Trainee Development - Platinum



Our Leadership



CA. Bharat Rijal
Chairman



CA. Gopal Prasad Pokharel
Strategy and Quality
Control Leader



CA. Bishnu Prasad Bhandari
Head - Advisory



CA. Abhaya Poudel
Head - Emerging Technology



Prof. Anjan Kumar Dahal
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Our Extended Team



CA. Sitesh Bhattarai
Lead - Advisory
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Manager - Business Immigration



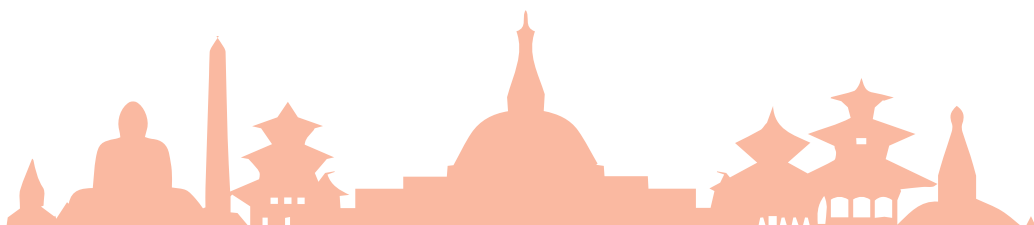
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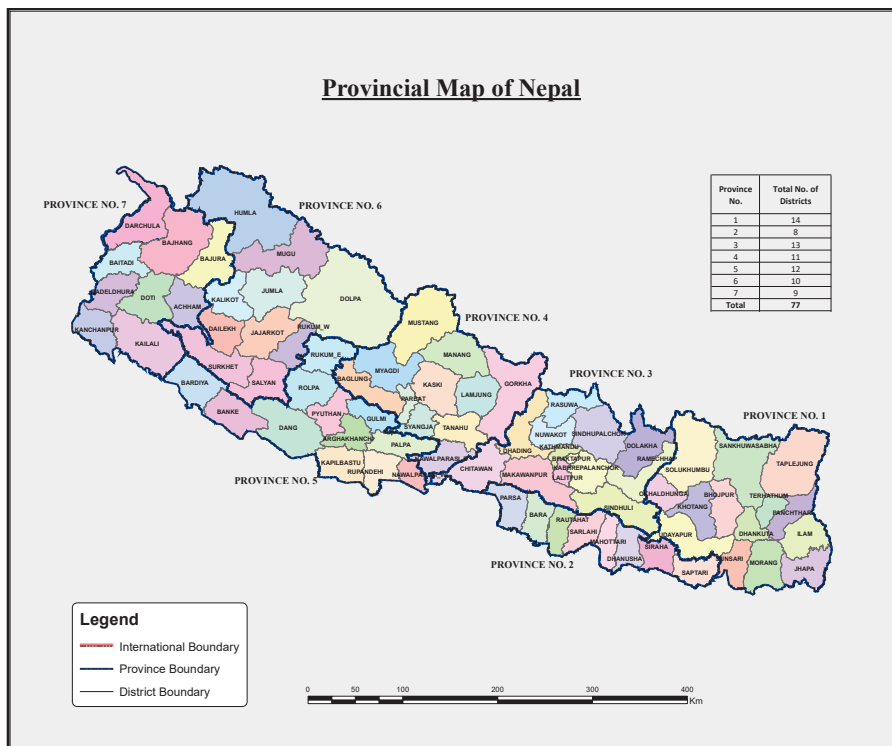
WHY NEPAL ?



Nepal is a sovereign, independent land-linked country located in South Asian region. It is located in the southern slope of Himalayas. Two gigantic countries frame Nepal from all four sides; China in North and India in East, West and South, keeping it away from any sea or ocean.

Geographically, Nepal lies between 26° and 31°N latitudes and 80° and 89°E longitudes. Its length runs 885 kilometers from East to West and breadth varies from 145 to 241 kilometers from North to South. Nepal's altitude ranges from about 59 meters in South to over 8,848 meters above sea-level in North. Nepal is the 94th largest nation in the world with a total area of 147,516 km².

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.



Nepal Fact Sheet

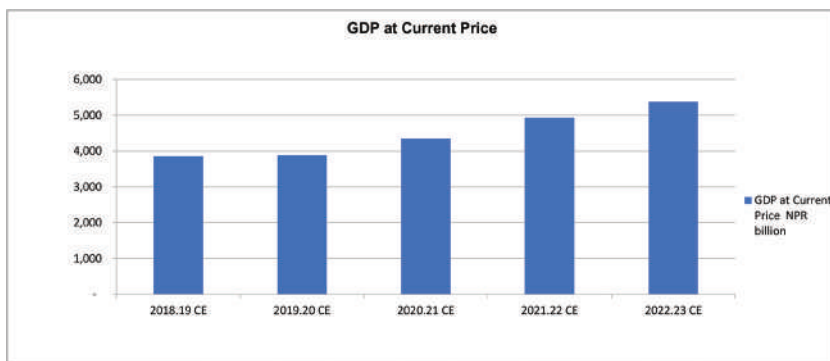
Location	: 26°22' North to 30°27' North and 80°4' East to 88°12' East
Time zone	: GMT + 5:45
Area	: 147,516 Square KM
Altitude	: 59 to 8,848.86 meters
Official country name	: Federal Democratic Republic of Nepal
Governing system	: Multiparty Parliamentary system
Executive power	: Prime Minister (elected by majority in the parliament)
Legislative power	: House of representative
International Memberships	: <ul style="list-style-type: none">- United Nations- South Asian Association for Regional Cooperation (SAARC)- World Trade Organization (WTO)- Asian Infrastructure Investment Bank (AIIB)- World Bank- Belt and Road Initiative (BRI)- Asian Development Bank (ADB)- International Monetary Fund (IMF)- Multilateral Investment Guarantee Arrangement (MIGA)- South Asian Free Trade Area (SAFTA)- BIMSTEC- UNESCAP- UNCTAD
Currency	: Nepalese Rupee (NPR) (Pegged with Indian Currency, 100 INR = 160 NPR)
Economy	: Open
Judiciary power	: Supreme Court of Nepal
Official language	: Nepali (English is widely used in business and profession)
Population	: 29.46 million
Human Development Index (HDI)	: 0.602 (in 2021)
International Dialing Code	: +977
Voltage	: 240
Nearest Ports	: Kolkata to Birgunj (739.4 Km.) Visakhapatnam to Birgunj (1470.6 Km)

Economic Indicators of Nepal

Particulars	2075.66	2076.77	2077.78	2078.79	2079.80*
	(2018.19AD)	(2019.20AD)	(2020.21AD)	(2021.22 AD)	(2022.23 AD)
Population (million)	28.40	28.66	28.92	29.19	29.46
GDP at Current Price (NPR billion)	3,859	3,889	4,352	4,933	5,381
Real GDP at Basic Price (NPR billion)	2,109	2,058	2,150	2,263	2,312
Annual GDP growth rate at basic price (%)	6.39	-2.42	4.49	5.26	2.16
GNI at Current Price (NPR billion)	3,899	3,935	4,376	4,962	5,424
GDP at Current Price per Capita (USD)	1,204	1,167	1,277	1,399	1,399
GNI per Capita (USD)	1,216	1,180	1,284	1,407	1,410
Wholesale Inflation Rate (%)	6.2	6.9	7.6	9.5	9.4
Salary and Wage Inflation Rate (%)	9.3	9.5	1.6	6.7	10.06
Consumer Price Index (CPI) (%)	4.64	6.15	3.60	6.30	7.50
Remittance Income (NPR billion)	879	875	961	1,007	1,182
Tourism Income (NPR billion)	75.4	60.9	7.3	32.45	57.40
USD NPR Exchange Rate (Period Average)	112.88	120.37	119.04	127.51	131.10

Source: Economic Survey, GoN Fiscal Year 2079.80 (2022.23CE)

* Based on first 8 months of 2022.23



Economic Growth rate (%) in South Asia and China

Country	2018	2019	2020	2021	2022	2023*
Nepal	7.6	6.7	-2.4	4.2	5.8	4.4
Bangladesh	7.3	7.9	3.4	6.9	7.1	5.5
Bhutan	3.8	4.4	-2.3	-3.3	4.3	4.7
India	6.5	3.9	-5.8	9.1	6.8	5.9
Sri Lanka	2.3	-0.2	-3.5	3.3	-8.7	-3
Pakistan	6.1	3.1	-1.0	5.6	4.0	4.2
China	6.8	6.0	2.2	8.4	3.0	5.2

* Projected

Source: Economic Survey, GoN Fiscal Year 2079.80 (2022.23CE)

Approved Foreign Direct Investment

Investment Board Nepal (IBN)

Till mid July 2022 Investment Board Nepal (IBN) has approved total investment equivalent to NPR 1,040.26 billion in 33 mega projects.

Projects	NPR in Billion
18 Hydropower Projects with combined capacity of 3,480.9 MW	703.57
7 Mines and Minerals (Cement) Projects	210.06
3 Industrial Infrastructure related projects	85.13
Tourism related project (Hotels)	13.99
Kathmandu Valley Waste Management Project (Package I to III)	5.67
Grid Connected Solar Photo Voltaic Plus Battery Storage Project	21.60
Venture Waste to Energy, Dharan	0.24
Total	1,040.26

Source: IBN Annual Report 2021-22

Out of those projects approved by Investment Board Nepal, 18 projects with a combined cost of NPR 853.47 billion involves foreign investment. The projects involving foreign investment are as below:

S.N.	Projects	NPR in Billion
A	Energy (Hydropower and Solar)	
1	West Seti Hydropower Project (750 MW)	156.8
2	Solar Photo Voltaic Plus Battery Storage Project (170 MW)	21.6
3	Upper Tamor Hydropower Project (285 MW)	63.72
4	Lower Manang Marsyangdi Hydropower Project (139.2 MW)	33.41
5	Arun III Hydropower Project (Sankhuwasabha) (900 MW)	144.76
6	Upper Marsyangdi-2 Hydropower Project (347 MW)	78.31
7	Upper Trishuli-1 Hydropower Project (216 MW)	73.16
8	Myagdi Khola Hydropower Project (57.3 MW)	10.32
9	Kaligandaki Gorge Hydropower Project (164 MW)	28.07
B	Mines and Minerals (Cement)	
1	Dangote Cement	56.28
2	Hongshi-Shivam Cement Pvt. Ltd.	37.35
3	Huaxin Cement Narayani Pvt. Ltd.	14.83
4	Reliance Cement	39.76
C	Industrial Infrastructure	
1	Vehicle Manufacturing and Assembly Plant Project	10.54
2	China-Nepal Friendship Industrial Park, Damak	64.9
D	Tourism	
1	Hotel Project	13.99
E	Urban Infrastructure	
1	Kathmandu Valley Waste Management Project (Package I)	4.87
2	Kathmandu Valley Waste Management Project (Package II&III)	0.8
Total		853.47

During the year 2022.23, The Investment Board Nepal has approved investment in further nine hydropower projects (with combined capacity of 1133.77 MW) involving total investment of NPR 203.96 billion. This includes foreign investment of NPR 146.22 billion in 3 hydropower projects as listed below.

Projects involving foreign investment	NPR in Billion
Lower Arun Hydropower Project (669 MW)	92.68
Upper Marsyangdi 1 Hydropower Project (102 MW)	33.19
Dudh Koshi 2 (Jaleswor) Hydropower Project (70 MW)	20.35
Total Investment	146.22

Department of Industries (DOI)

Till 2024 mid-January 9,296 industries have been registered in Department of Industries with a total investment proposal of NPR 2,973 billion.

Till mid-July 2023, Department of Industries has approved foreign direct investment equivalent to NPR 449.97 billion in 5,859 industries.

During financial year 2023.24, DOI has approved FDI equivalent to NPR 22.33 billion in 226 industries till mid-January 2024.

Country-wise Approved FDI from DOI (till mid-July 2023)

Country	No. of Industries	FDI (NPR Billion)	Share in total approved FDI
China	2,290	231.28	51.40%
India	830	101.64	22.59%
USA	457	16.15	3.59%
UK	208	14.44	3.21%
South Korea	362	12.81	2.85%
British Virgin Island	17	11.06	2.46%
Singapore	61	7.90	1.75%
UAE	24	3.81	0.85%
Canada	52	3.65	0.81%
Japan	282	3.50	0.77%
Others	1,276	43.73	9.72%
Total	5,859	449.97	100%

Source: Industrial Statistics, Department of Industry, Nepal, Fiscal Year 2079.80 (2022.23CE)

Industry-wise Approved FDI from DOI (till mid-July 2023)

Industry	No. of Industries	FDI (NPR billion)	Share in Total approved FDI
Energy	92	130.73	29.07%
Service	1955	111.48	24.79%
Tourism	1950	101.30	22.52%
Manufacturing	1293	71.72	15.95%
Information Broadcasting & Communication Technology	136	12.70	2.82%
Mineral	73	8.25	1.84%
Agriculture and forest Based Industries	296	8.23	1.83%
Infrastructure	64	5.30	1.18%
Total	5,859	449.71	100%

Source: Industrial Statistics, Department of Industry, Nepal, Fiscal Year 2079.80 (2022.23CE)

Why Nepal

- Nepal is strategically located between two large and rapidly growing economies China and India, with easy access to markets of more than 2.6 billion people.
- Nepal has large pool of capable workers (out of total population, about 57% are of working age i.e.15-59 years). Nepal has relatively low cost of labor compared to other peer countries.
- Nepal is ranked 94th in the world and 3rd in South Asia in “Ease of Doing Business Report 2020” by the World Bank Group.
- Foreign investors are allowed 100% ownership of a company in a majority of sectors. Repatriation of capital and profits are allowed by law.
- Minimum threshold for foreign investment has been reduced to NPR 20 million (earlier it was NPR 50 million).
- Land ownership is allowed in company’s name.
- On arrival tourist visa allowed for visitors. Business visa for investors, simplified process.
- Various bilateral investment protection and double tax avoidance arrangements are in place.
- Nepal has signed Bilateral Investment Promotion and Protection Agreement (BIPPA) with India, Finland, Germany, Mauritius, UK, and France.
- Double Taxation Avoidance Agreement signed with Austria, Bangladesh, China, India, Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand.
- Compared to other countries in South Asia, Nepal offers the lowest tax burden in the region. Some of the reasons for comparatively high ROI in Nepal include:
 - Huge investment potential in tourism, hydro-power, agriculture, and mine and mineral sectors;
 - Abundance of natural resources;
 - General income tax rate of 25% (20% in priority sector like Energy, Transport Infrastructure and Manufacturing), Value Added Tax (VAT) of 13%;

- Tax Holiday for specific sectors;
- Income tax concession on profits from exports;
- Tax concession of 50% to the income in foreign currency from export of Business Process Outsourcing, Software Programming, Cloud Computing and similar IT based services upto FY 2084/85 (2027-28).
- 100% Tax exemption for 15 years and 50% Tax exemption for further 6 years for reservoir based and semi-reservoirbased hydropower with capacity more than 40 MW as well as to Lower Belt Hydro power projects operating with Tandem operation under such projects
- Withholding tax rate of 15% on royalties and technical & management fees;
- Customs, excise duties, and VAT levied on raw materials and auxiliary raw materials of export-oriented industries is reimbursed to the exporter on the basis of the amount of exports within 60 days of application.
- Nepal has open boarder access to India. Nepal has duty free access to China for around 8,000 products. Nepal has duty free access to US market for 77 items for 10 years starting from 2016.

Socio-Political and Economic Environment

- Nepal's economy is projected to grow by 2.16 percent in base price in the fiscal year 2022.23 according to the preliminary report of the Central Bureau of Statistics (CBS). The economic growth rate was 5.26 in fiscal year 2021.22. IMF has projected the growth rate of Nepal to be 4.4% in 2023. It was 5.8% in 2022.
- Annual Inflation remained at 6.32 percent in 2022 and is expected to be 7.8 % in 2023. The average annual inflation rate of Nepal from 2017 to 2022 has remained at 4.94%.
- Contribution of Agro and Non-agro sector to the GDP expected to be 24.1% and 75.9 % in 2022.23. The ratio was 24.7 % and 75.3% in 2021.22.
- Development of the country being the major agenda of the Government.
- Legal reforms going on to attract investors; Companies Act, Labor law, Industrial Enterprise Act, Foreign Investment and Technology Transfer Act (FITTA), Special Economic Zone Act, have either been revised or in process of revision.

- Government focusing on improving infrastructures. The construction of Dry Port at Chovar Kathmandu has already been completed. After completing the Feasibility study, DPR and EIA is in progress for Korala Dry Port.
- The construction of Gautam Buddha International Airport at Bhairahawa has been completed and the airport is already in operation. The construction of International Airport at Pokhara is also complete and is already in operation.
- Annual Investment estimated NPR 2025 Billion Per Year to meet Sustainable Development Goals (SDGs) by 2030 AD.

Potential Areas/Sectors for Investment

Energy

- Rich in water resources with multiple sources of water, including glaciers, snow melt from the Himalayas, rainfall and groundwater. Theoretical capacity of hydropower is around 80,000 MW, out of which 43,000 MW is estimated to be economically feasible.
- As per the government policy to encourage the production and use of electricity, the production and consumption of electricity is increasing. The access to electricity of the population has reached 95.0% in the fiscal year 2022.23 with the increase of the electricity production.
- The total installed capacity has increased to 2,666 MW in mid-March 2023 that includes 2,449 MW from Hydropower, 75.04 MW from Solar, 53.4 MW from Thermal Plant, 82 MW from Renewal Energy and 6 MW as the by-product of the Sugar Mills. Similarly, the Nepal Electricity Authority (NEA) owned hydropower's 661 MW and private investors owned hydropower's 1,527 MW have been added to the national grid.
- As of mid-March of 2023, the electricity imported from India was 1011 gigawatt hours and exported 1053 gigawatt hours. In fiscal year 2021.22, the import of electricity was 1,543 gigawatt hours and the export was 493 gigawatt hours.
- As of Mid-March of 2023, National Transmission line (66 KV or higher) has reached 5,669 Circuit Kilometer and distribution line (33 KV or lower) has reached 136,595 kilometer.
- To meet the target of graduating from Least Developed Country (LDC) status to developing country status by 2022 CE and become a middle

income country by 2030 CE, additional 6,000+ MW (which requires investment of approximately USD 10 billion) is required, consequently huge opportunities.

- Investment opportunities in the up-gradation and expansion of distribution systems (for which investment of approximately USD 2 billion is required) and transmission systems (for which investment of approximately USD 4.45 billion is required).
- The Power Trade Agreement (PTA) signed with India has opened up a large market for export.
- The SAARC Framework agreement on Energy Cooperation signed during the 18th SAARC Summit in 2014 has paved the way for the eventual formation of a regional energy market.

Electricity Production, Demand and Infrastructure Status

Particulars	2018.19	2019.20	2020.21	2021.22	2022.23*
Electricity Production (MW)	1,182	1,333	1,451	2,190	2,521
Transmission Line (KM)	3,634	3,730	3,977	4,577	5,297
Distribution Line (KM)	127,245	130,401	132,650	136,595	138,650
Peak Demand (MW)	1,320	1,408	1,482	1,748	1,840
Access of Population to Electricity (in %)	78	86.44	89.70	93	93

Source: Economic Survey, GoN Fiscal Year 2079.80(2022.23CE) *till mid-March 2023

Electricity Consumption Pattern

Particulars	2018.19	2019.20	2020.21	2021.22	2022.23*
Total Annual Consumption in Giga watt Hour	6338	6529	7268	9317	6789
Consumption Pattern in %:					
Household Consumption	42.10	43.90	43.20	39.90	36.60
Industrial Consumption	38.20	35.00	38.70	37.00	30.70
Business	7.40	7.50	7.00	7.00	6.70
Others	11.80	12.00	11.00	10.80	10.10
Export	0.60	1.60	-	5.30	15.90

* till mid- March 2023

Tourism

- With the world's highest mountain range, the Himalayas, and 8 of the 10 highest peaks in world, popular among mountaineers, trekkers and adventure seekers.
- Offers beautiful lakes, steep rivers and gorges, unique wildlife, historic monuments, impressive fine arts, significant religious sites and exotic cultures attracting a wide array of travelers for a variety of reasons.
- A destination for religious tourism and pilgrimages. Lumbini, the birthplace of Lord Buddha, and Pashupatinath and other Hindu pilgrimage sites are the main attractions for people following Buddhism and Hinduism.
- Opportunities in developing tourism infrastructure (hotels, restaurants, roads, airports, cable car etc.), also great potential for expanding the market for Meetings, International Conferences and Events (MICE).
- Construction of international airports at Bhairahawa and Pokhara are already complete, which will help to increase the tourist traffic significantly.
- Number of airlines operating international flights has reached to 32 and the number of airlines operating domestic flights has reached to 22. Out of 53 airports in Nepal, 33 are in operation.
- As of mid- March 2023, the number of Star hotels has reached 173 and other hotels, resort and lodge 1228. Total number of beds in Star hotels has reached 16,335 and in other hotels lodge and resorts 37,030.
- As of mid-March 2023, 28 Casinos are in operation in Nepal. Similarly No. of travel agencies has reached 4,057 and trekking agencies 2,900, rafting agencies 88 and tourist transportation services 85.
- As of mid-March 2023, number of tour guides has reached to 4665, trekking guides 19,534 and river guides 387.

Tourists arrival data of Nepal

Year	No. of Tourists	Average stay (days)	Annual Growth
2022	614,869	13.1	307.3%
2021	150,962	15.5	-34.30%
2020	230,085	15.1	-80.8%
2019	1,197,191	13.0	2.1%

2018	1,173,072	12.4	24.8 %
2017	940,218	12.6	24.9%
2016	753,002	13.4	39.7%
2015	538,970	12.8	-31.8%
2014	790,118	12.4	-0.9%

(Note: arrival of Indian Tourist by land not included)

Source: Economic Survey, GoN Fiscal Year 2079.80 (2022.23 CE)

Infrastructure

- As the country is focusing on the development of infrastructures, lots of opportunities to expand the road network in PPP models.
- As of Mid-March of 2023, the total length of the road including all roads constructed by central government and local authorities has reached 66,057 kilometers including 47,320 kilometers blacktop (including strategic and local road networks), 14,000 kilometers graveled and 4,737 kilometers fair weather. The total length of road constructed by the central government has reached to 34,100 kilometers including 51.3% blacktop, 23.3% gravel and 25.4% fair weather.
- Nepal's main highways require expansion to accommodate the increase in traffic, which is another area for public-private partnerships.
- In order to cater to the needs of the growing population, the development of mass public transportation systems – bus-rapid transport (BRT), railways, monorails, airports has been prioritized. To finance these projects, the government is looking at public-private partnerships.
- All over the country there are 53 airports. Of the total airports, 41 airports (Black topped) are feasible to operate in all weathers. The regular air services are being carried out in 33 airports in all weather. Three international airports are complete and in operation.
- Eight north-south corridors (roads) linking China and India through Nepal, a cross-border railway line connecting Kathmandu with China, five cross-border railway lines, ultimately connecting Kathmandu with India, a railway line along the East-West Highway, and cable cars in the hilly regions are planned.

Agriculture

- Economy is largely dependent on agriculture.
- The contribution of agriculture sector (agriculture, forest and fisheries) to GDP was 32.7% in fiscal year 2011.12 whereas it has been gradually decreasing in recent years and is estimated to remain 24.1% in fiscal year 2022.23.
- The Agro Production is expected to grow by 2.7% in fiscal year 2022.23. The growth was 2.2% in 2021.22.
- According to the Nepal Labor Force Survey of 2021, 50.4 % of the population is engaged in agriculture sector. According to the Nepal Labor Force Survey of 2018, 60.4% of the population was engaged in agriculture sector.
- About 28% of the total land area is cultivable land. 41.69% of the total land is covered by the forest.
- Government is focused on the modernization, diversification, commercialization and marketing of the agriculture sector.
- Government plans to make available agricultural inputs, such as irrigation, electricity, transportation and agro-credit.
- The Nepal Trade Integration Strategy 2010 focuses on the development of cardamom, ginger, honey, lentils, tea, noodles and medicinal herbs/ essentials oil as priority export products.
- Good opportunities exist in agriculture production, processing, packaging and branding.
- Non-timber forest products, cardamom, ginger, aquaculture, vegetables, floriculture, tea, coffee and honey offer many opportunities.
- Good opportunities in input markets (such as for seeds, nurseries, fertilizers, agricultural infrastructure and technology, and agriculture financing).
- Due to favorable climatic conditions, the focus on high value organic crops is increasing.

Information and Communication Technology

- One of the fastest emerging sectors in the country, with huge potential for growth in the coming years.
- All areas are open to foreign direct investment except for media. For telecommunications, 80% foreign ownership is allowed.
- The Government has identified IT and Business Process Outsourcing (BPO) as one of the five priority potential export service sectors.
- Only two major telecommunications companies (NTC and Ncell) dominating the sector, ample room for new firms to enter the market.
- Foreign BPO companies can tap into the young English-speaking population and benefit from the cost advantages offered by the low wages and low establishment and operating costs.
- The time zone favorable for companies looking to outsource from America or Europe.
- Unmet needs for the use of ICTs in government agencies and the private sector.
- Long Himalayan range and cold climate in the surrounding area present opportunities for establishing data mining/warehouse industries in Nepal.

Some indicators related to ICT

Indicators	Till Mid-March 2023
Telephone Density (%)	126
Broadband Density (%)	131
Customers of mobile telephone (in millions)	35.99
Broadband Subscribers (in millions)	38.13

Source: Economic Survey, GoN Fiscal Year 2079.80 (2022.23 AD)

Health and Education

- Opportunities exist in developing education infrastructure, including upgrading and building educational institutions and even education cities (medical, IT, engineering, management etc.), for which the government is seeking to engage in private-public partnerships.
- As of mid-March 2023, there are 215 hospitals, 201 primary health service centers, 3,820 health posts, 426 Aayurvedic health centers and 3,196 sub-health post or basic health service centers. There are 16,015 hospital beds, 6,138 doctors and 27,683 nurses.
- Every year, thousands of students go abroad for further studies spending large sums of money. With more and better education institutions within the country, this could be avoided.
- Government is looking to develop health infrastructure, including modernization, increasing the capacity of health facilities and mobilizing privately run hospitals by means of public-private partnerships.
- Persistent shortages of quality medicines in the market present opportunities for manufacturers of pharmaceutical goods.

Financial Sector

- Although the financial sector is growing at a rapid pace, a significant portion of Nepal's population still has no bank accounts.
- As of mid-March 2023, a total of 120 banks and financial institutions are in operation including 21 commercial banks, 17 development banks, 17 finance companies, 64 microfinance companies and 1 infrastructure development bank.
- Banking services are heavily concentrated in urban areas.
- Financial sector of Nepal still has a large untapped market for banking and financial services.
- There are 31,373 Co-operatives operating in the country as of mid-March 2023.
- As of mid-March 2023, there are 18 life insurance companies, 16 non-life and 2 re-insurance companies operating in Nepal. 44.05% of the population has access to insurance.
- Electronic payment transaction has increased significantly due to the development of payment infrastructure, policy of encouraging electronic

payments and gradual adoption of electronic payment instruments. As of mid-March 2023, apart from the banks and financial institutions, there are 10 electronic payment service operators and 27 payments service providers operating in Nepal.

- The total market capitalization of the security market as on mid-March 2023 has reached NPR 2,823.68 billion which is 25.4% low as compared to that of mid-March 2022. The market capitalization in mid-March 2022 was NPR 3,782.79 billion. The banking and insurance sector holds 64.7% of the total market capitalization. Hydropower companies hold 13.9%, investment companies 6.8%, manufacturing and processing industry 3.9%, hotels 1.9%, business entities 0.4% and others 8.4% of the total market capitalization.
- No. of listed entities has reached 245 as of mid-March 2023. There are 31 merchant banks and 3 Credit Rating Agencies as of mid-March 2023.
- Nepal's insurance market also has huge potential as the penetration rate is very low.

Mines and Minerals

- Nepal has an abundance of minerals used in industry and construction, including limestone (most abundant), coal, talc, red clay, granite and marble, gold, and precious and semi-precious stones (tourmaline, aquamarine, ruby and sapphire).
- Recent studies have shown that Nepal has 1,270 million tons of cement grade limestone that includes 700 million ton (proven), 200 million tons (half-proven), 370 million ton (possible). There are 26 cement industries in operation and 2 are in construction phase. With existing capacity, 10 million ton cement is expected to be produced yearly. Nepal has exported cement and clinker worth NPR 305.5 million till mid-March 2023 in the financial year 2022.23 CE.
- Nepal has an estimated 5 billion metric tons of dolomite and 180 million metric tons of high grade magnetite.
- The western part of Nepal has witnessed gas and oil seepage, confirming the presence of oil and natural gas in Nepal.
- About 10 petroleum and natural gas exploration sites have been identified so far.
- Nepal has more than 20 million metric tons of ore reserves in more than 80 locations.
- Copper occurs in Nepal in more than 107 locations.

FDI Success Stories

Upper Marsyangdi A Hydropower Project

Upper Marsyangdi A is a run-of-river hydro-power project located in Bhulbhule of Lamjung district of western Nepal. The flow from Marshyangdi River is used to generate 50 MW electricity. It is the first project in Nepal built with foreign direct investment from China. It is also the first hydropower project built in BOOT model in Nepal. The project was developed by Joint venture of Power China Resources Ltd and Sagarmatha Power Company Nepal. A JV company Sinohydro-Sagarmatha Power Company (P) Ltd., was established in Nepal in March 2010 with PCR (90% shares) and SPC (10% Shares). The project construction started in October 2012 and was expected to be completed in December 2015 with an estimated cost of NPR 10 billion, but it was delayed due to the earthquake. The project started its commercial operation in 2016.

Hongshi-Shivam Cement Pvt. Ltd.

The 18th Board meeting of the Nepal Investment Board held on 28 July, 2015 approved the foreign investment of US\$ 359.18 million (NPR 36 billion) by Hong Kong Red Lion No. 3 Ltd of Hongshi Holdings to establish a cement factory in Nepal. Hongshi Holdings had applied to the Investment Board Nepal a couple of months back for approval of FDI. The factory was proposed to be a joint venture with Shivam Cement of Nepal, with the Chinese company holding a 70% stake and the remaining 30% owned by Shivam Cement.

The plant came into operation in May 2018 with a capacity of 6,000 tons per day. Its factory is located at Beni Manipur VDC in the Nawalparasi district. The company currently manufactures ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC) under the brand, Hongshi.

Solid Rock Lodge & Restaurant

Solid Rock Lodge & Restaurant (a resort in Dakshinkali) which was established with a foreign investment of NPR 17,000,000 approved from Department of Industries opened for guests in August 2016. It provided an exciting new alternative for visitors to the attractive area around Pharping. Located on a green hillside above Dollu village (altitude 1760 m.), the lodge has splendid views of the surrounding forests and fields. Solid Rock features an organic vegetarian restaurant established in a traditional Nepali farm house and six comfortable guest rooms built in newly constructed earthquake resistant bamboo cottages. The resort is owned and run by Danish expat Christian 'Simon' Simmelkiaer and his Nepalese wife Mina KC.

Huaxin Cement Narayani Pvt. Ltd.

The 19th Board meeting of the Nepal Investment Board held on 21 Dec, 2015 approved the foreign investment of US\$ 140 million (NPR 14.83 billion) by Huaxin Cement Co. Ltd., China. The China-Nepal Joint Venture “Huaxin Cement Narayani Pvt. Ltd. started its operation in 2022 with a capacity of 3,000 tons per day. Its factory is located in Dhading district. The company manufactures both Ordinary Portland Cement (OPC) and Portland Pozzolana cement (PPC).

Gourmet Vienna Meat and More Products Company Pvt. Ltd

The journey of Gourmet Vienna Meat and More Products Company Pvt. Ltd. started in 1984 AD with the name of Gourmet Vienna Food Products, when a factory was set up in Thamel, Kathmandu with an initial investment of NPR 2.5 million. It was the first company to introduce frozen foods in Nepal. The company started with the production of bakeries and pastries. Gradually, they introduced production of processed meat like sausages, ham and salami for the first time in Nepal. They were also the first company to import and sell imported cheese and coffee which they imported all from Europe.

Berger Jenson & Nicholson (Nepal) Pvt. Ltd.

Berger Jenson & Nicholson (Nepal) Pvt. Ltd. is a leading decorative paints manufacturer in Nepal. The company is a 100% subsidiary of M/S Berger Paints India Limited (BPIL) and was established with foreign investment approval from DOI. The company has two manufacturing units, one in Bhaktapur and the other in Hetauda, Makwanpur.

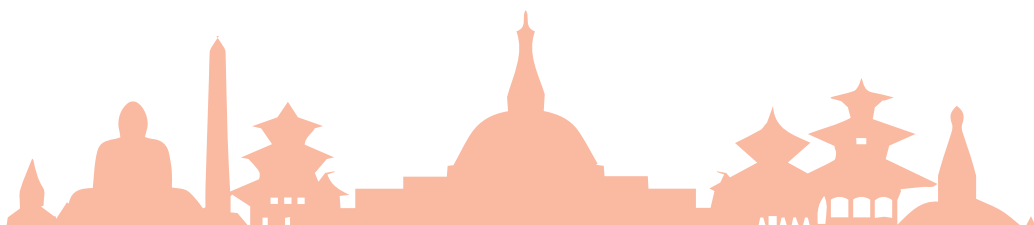
Nepal SBI Bank Ltd.

Nepal SBI Bank Ltd (NSBL) was established in 1993 as a subsidiary of the State Bank of India (SBI). SBI holds a stake of 55% in NSBL. SBI is a fortune 500 entity and the Government of India is the majority stakeholder. The bank has a total of 135 outlets that include 94 full-fledged branches, 22 extension counters, 7 province offices, 11 branchless banking outlets and a corporate office. With presence in 51 districts in Nepal, the bank is providing value added services to its customers through its wide network of 122 ATMs, internet banking, mobile wallet, SMS banking, IRCTC ticket online booking facility, etc. NSBL is one of the fastest growing commercial banks of Nepal with more than 1.30 million satisfied deposit customers and over 1 million ATM/Debit cardholders. The bank enjoys a leading position in the country

in terms of penetration of technology products, viz. mobile banking, internet banking and card services. The bank is moving ahead in the Nepalese banking industry with significant growth in net profit with very nominal NPA. As of 31st Ashad, 2080, the bank has deposits of NPR. 150.72 billion and advances (including staff loan) of Rs. 125.53 billion, besides investment portfolio (including investment in subsidiary) of NPR. 34.14 billion.

DOING BUSINESS IN NEPAL 2024

HOW TO INVEST IN NEPAL?



Mode of Investment in Nepal

Foreign Investment can be made in any industry in the following forms:

- through investment in shares in a new or in existing industry, in foreign currency,
- reinvestment of earnings derived from earlier investment,
- lease financing of specified equipment like airlines, ships, machineries and equipment (up to prescribed threshold),
- investment in venture capital funds (VCFs) by institutional foreign investors,
- investment in listed securities through secondary market by VCFs,
- acquisition of shares/assets of existing companies,
- issuance of securities in foreign capital market,
- investment made through technology & know-how transfer agreement,
- investment maintained by establishing and expanding an industry in Nepal,
- investment as a foreign loan having prior approval from NRB beside the FITTA based on the separate regulations promulgated by NRB.

Note:

1. *Investment can be made either in cash or in the form of tangible / intangible assets, e.g. machinery and equipment.*
2. *"Investment in listed securities through secondary market by VCFs" can be done only after notification by Nepal Government.*
3. *Foreign Financial Institution, with recommendation of ministry and approval of NRB can invest in a Foreign Invested Industry, in the form of project loan or project finance.*
4. *As per Nepal Gazette dated 14th Nov 2022 the minimum ceiling for foreign investment has been reduced to NPR 20 million by Nepal Government (earlier it was 50 million).*
5. *As per the notice published in the Nepal Gazette dated 2nd October, 2023, there is no minimum investment limit for information technology-based industries when investments are made through the automatic route. This provision is to be implemented after the commencement of Automatic Route with a new website which is currently under construction. Even after the notice published in Nepal Gazette, the lifting of minimum threshold for IT industry had to wait for the Automatic Route mechanism along with the new website which is expected to be launched by the Department of Industry (DOI) in the near future.*

Approving Authority for Foreign Investment

Project size

Upto NPR 6 billion
More than NPR 6 billion

Approving Authority

Department of Industries (DOI)
Investment Board of Nepal (IBN)

In case of investment in the form of Foreign Loan of any amount, Nepal Rastra Bank (NRB) is the approving authority.

Starting a business in Nepal by establishing a new industry

Procedure for establishing industry with projects upto NPR 6 billion

1.	Project Identification and Initial Consultation at Department of Industries (DOI)
2.	Application for foreign investment approval at DOI including all required documents
3.	Approval of foreign investment by DOI and issuance of approval letter by DOI
4.	Incorporation of a company at Office of Company Registrar (OCR) by making application with required documents and payment of registration fee
5.	PAN/VAT registration at Inland Revenue Office (IRO), Business Registration at Local Authority, and opening of Bank Accounts
6.	Industry Registration at DOI
7.	Written notification to Foreign Exchange Facilitation Unit of NRB located at single point service center for bringing foreign currency into Nepal
8.	Inflow of FDI into Nepal and deposit in concerned commercial bank after necessary verification by the bank
9.	Application to NRB for recording/accounting of foreign currency brought into Nepal
10.	Environmental Assessment as required under related laws
11.	Application for business license from concerned regulating authorities as applicable
12.	Commissioning of Industry

Note:

- Prior approval for foreign investment or approval of NRB will not be mandatory for interested foreign investors to send / remit foreign currency into Nepal through banking system for feasibility study /pre-operating expenses. Such amount, upto 3% of their paid-up capital may be considered /accounted as foreign investment later if expenses are certified by auditor and are properly accounted while doing endorsement of foreign investment in NRB.*

2. *Prior approval of NRB shall be required to bring foreign currency into Nepal for foreign investment where such foreign investment results in change of share ownership.*
3. *On 2 October 2023, the Government of Nepal proclaimed the process for approving foreign investments of up to NPR 500 million through the automatic route. Interested Foreign investors may apply from abroad to invest up to NPR 500 million and they will automatically receive pre-approval through the online system, which is under construction. The proposed automatic route provided them to invest in one of the following areas; energy production/agriculture and forest production/infrastructure/tourism/information technology-based industries/service/manufacturing.*

Procedure for establishing industry with Projects of more than NPR 6 billion

1.	Project Identification and initial Consultation at Investment Board of Nepal (IBN)
2.	Application for foreign investment approval at IBN including all required documents
3.	Approval of foreign investment and issuance of approval letter by IBN
4.	Incorporation of a Nepalese Company at Office of Company Registrar (OCR) by making application with required documents and paying required fee
5.	Income Tax / VAT registration at Inland Revenue Office (IRO), Business Registration at Local Authority and Opening of Bank Accounts
6.	Industry Registration at DOI
7.	Written notification to Foreign Exchange Facilitation Unit of NRB located at single point service centre for bringing foreign currency into Nepal
8.	Inflow of FDI into Nepal and deposit in concerned commercial bank after necessary verification by the bank
9.	Application to NRB for recording/accounting of foreign currency brought into Nepal
10.	Environmental assessment as required under related laws
11.	Application for business license from the concerned regulating authorities if applicable
12.	Project Development Agreement (PDA) for PPP projects and Project Investment Agreement (PIA) for private projects: Negotiations and Agreement
13.	Commissioning of Industry

Note:

1. *Prior approval for foreign investment or approval of NRB will not be mandatory for interested foreign investors to send / remit foreign currency into Nepal through banking system for feasibility study / pre-operating expenses. Such amount, upto 3% of their paid-up capital may be considered /accounted as foreign investment later if expenses certified by auditor and properly accounted in NRB.*

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Procedure for investing in Infrastructure Projects under PPP model

1.	Short-listing of Projects by IBN / Nepal Government / Province Government / Local Government as appropriate
2.	Invitation of Expression of Interest (EOI) from the interested investors by appropriate authority
3.	Submission of EOI along with all required details and documents to the appropriate authority
4.	Short-listing of the possible candidates and invitation of technical and financial proposals
5.	Selection of best proposal
6.	Grant of license to carry out the detailed study of the project
7.	Execution of PPP agreement

Note:

1. At present, Infrastructure projects of upto NPR 6 billion or hydropower project upto 200 MW is approved by the concerned ministry of Nepal Government.
2. Any entity desirous of implementing a project which it has identified, may submit their EOI directly to the appropriate authority without any public notice. The appropriate authority may either directly grant license for detailed study or invite competitive bidding if competitive bidding seems better option.

Starting a business in Nepal by investing in an existing industry

Procedure for investing in an existing industry in Nepal

1.	Industry identification and initial consultation at DOI / IBN
2.	Application for foreign investment approval at DOI / IBN including all required documents
3.	Approval of foreign investment and issuance of approval letter by DOI / IBN as the case may be based on the amount of the investment
4.	Application to Nepal Rastra Bank for approval to bring FDI into Nepal

5.	Inflow of FDI into Nepal after NRB approval
6.	Investment in the existing Nepalese company by share transfer or further issue of shares of Nepalese company
7.	Certification of investor as new shareholder of the company from Office of Company Registrar (OCR)
8.	Industry Registration with DOI or change of the structure of industry at DOI
9.	Application to NRB for recording / accounting of the foreign currency brought into Nepal

Note:

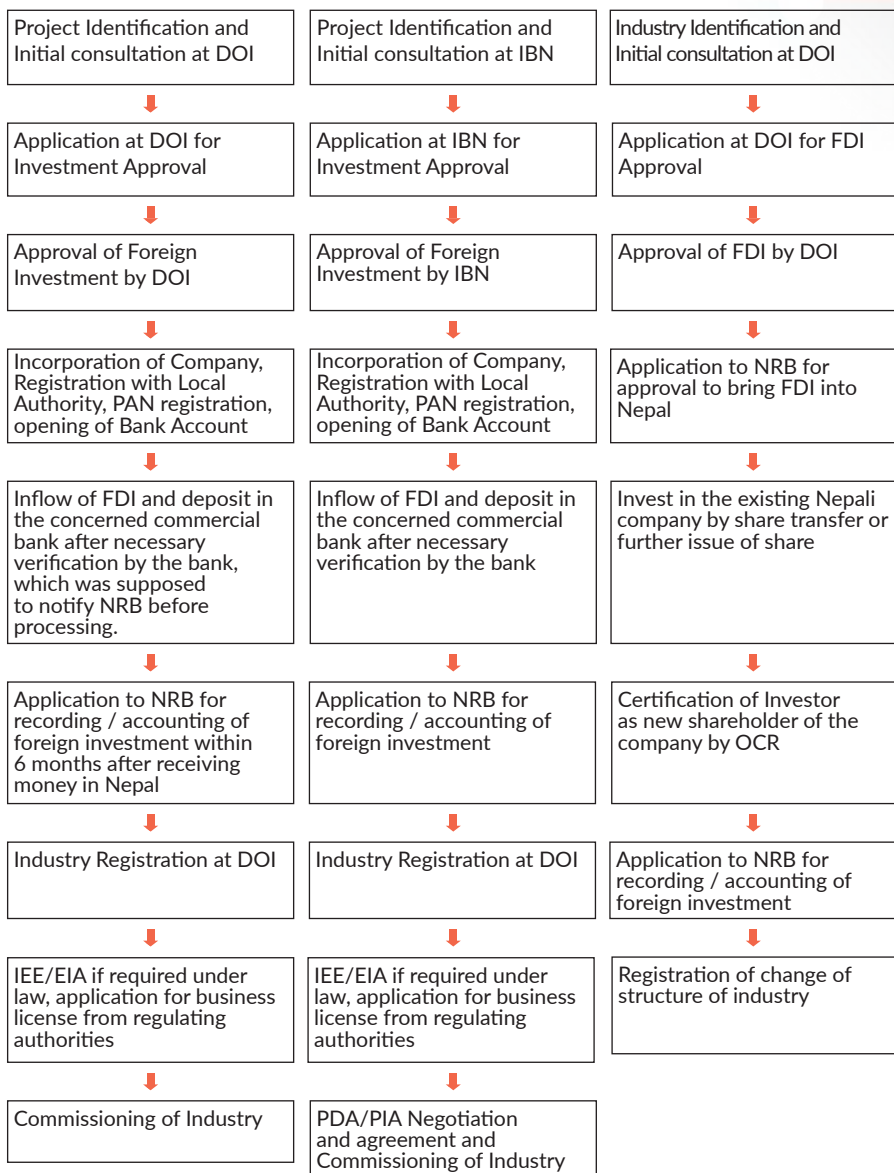
1. *Prior approval for foreign investment or approval of NRB will not be mandatory for interested foreign investors to send / remit foreign currency into Nepal through banking system for feasibility study / pre-operating expenses. Such amount, upto 3% of their paid-up capital may be considered / recorded as foreign investment later if expenses certified by auditor and properly recorded in NRB.*

Process Flow for Starting a business in Nepal

Procedure for establishing a new industry Investing in existing industry

Project of upto 6 Billion NPR

Project of more than 6 Billion NPR



Provision of Single Point Service Centre

As specified in Industrial Enterprises Act 2020, the Nepal Government has established a Single Point Service Center (Centre). All services required by an industry including concessions, facilities and incentives shall be provided through this Centre in an easy and spontaneous manner. In addition, other administrative services such as approval, registration, expansion and approvals for industries will be provided from the Centre on a timely manner.

Services provided by the Centre includes:

- a) Services such as registration, establishment, approval, license renewal, transaction approval, capacity enhancement and classification of company, firm, industry which were earlier provided by Office of Company Registrar, DOI and Department of Commerce, Supply & Protection of Consumers.
- b) Accepting document required for business registration in electronic form which can be used by various units internally.
- c) Approval of foreign investment and repatriation thereof. Where departmental limit is above the center's authority, take initiative to get the approval from appropriate authority.
- d) Providing concessions on tax and duties and such other facilities, services and incentives as per prevailing laws.
- e) Facilitating the process of getting approval to hold land beyond the approved ceiling for the purpose of establishment of an industry. The Center shall also facilitate to obtain government land on lease and other approval necessary for environment examination.
- f) Facilitate infrastructure such as connection of electricity, communication, water, access road etc.
- g) Providing work permits and visa related facilities to foreign investors and employees.
- h) Issue Export and Import Code Number (EXIM code).
- i) Facilitation in import and providing necessary approvals for all kinds of raw materials required in an industry.
- j) Approval for Initial Environment Examination (IEE) and if delegated from the concerned ministry, approve, scoping documents and Terms of Reference (TOR).

- k) Facilitate approval of Environment Impact Assessment (EIA).
- l) Approval of foreign exchange up to US\$ 100,000 at a time and facilitation for approval above USD 100,000 at a time.
- m) Establish an investment portal to provide necessary information on investment.
- n) Provide Permanent Account Number (PAN).
- o) Provide export subsidy etc.

The FITTA 2019 has also introduced One-Stop Service Mechanism, which is to be established as per the prevailing law. Government of Nepal can provide exemptions, facilities, concession or services to foreign investors through One-Stop Service Mechanism. Such services are registration of Industries, various approvals, labor permit, visa service, quality check and control of products produced by industries and others.

Recording/Accounting of Foreign Investment in NRB

The Nepalese Company / Industries with foreign investment or the foreign investor are required to submit application along with required documents for the recording /accounting of the foreign investment in Nepal Rastra Bank (NRB) within 6 months of remittance of foreign currency into Nepal. If accounting is not done properly and regularly, then there may be problem at the time of repatriation while taking approval of NRB. This provision also applies to the foreign loan investment approved by the NRB, after the loan investment has been made and received by Borrower's Bank Account in Nepal.

Registration Requirement for Foreign Companies before carrying out any business or transaction in Nepal

Foreign companies shall not carry out any business or transactions in Nepal without being registered under any of the following modalities:

- BRANCH
- LIAISON OFFICE
- LOCAL SUBSIDIARY
- JOINT VENTURES

Note

- *A foreign company registered as liaison office shall not be entitled to do any income generating activities in Nepal. It is merely a contact office in Nepal.*

- A foreign company can register a branch with rights to do income generating activities in Nepal.
- A foreign company can register a fully owned subsidiary company in Nepal. A private company is the most common corporate vehicle used by foreign companies seeking to establish a business presence in Nepal.
- A joint venture can take the form of a limited liability company among foreign and Nepali investors or among foreign investors only. International Joint Ventures between a foreign company and a local business are common in Nepal as well as individual level Joint Ventures between local and foreigner is also common phenomenon.

Investment in the form of Foreign Loan

Nepalese individuals, firms, companies, banks and financial institutions and other institutions can take loan from outside Nepal with prior approval of NRB. The provisions regarding acceptable borrower, acceptable foreign lenders, terms of foreign loan and interest cap are as given below:

S. N	Acceptable Borrower	Acceptable Foreign Lenders	Foreign Loan Terms	Place of Submission of loan application
1	Firm, Company, Industry or Institution (except licensed banks and financial institutions)	(A) Bank and financial institution situated abroad (B) Financial institution/ Company situated abroad authorized to disburse loan from the government or central bank or other regulatory body of the concerned country abroad.	<u>Interest rate:</u> (A) Maximum One Year Benchmark Interest Rate*+ 6.0% p.a. (B) In case of borrowing from India in Indian Rupees: - If the lender is as per (A): The interest rate mentioned in (A) or upto 1 Year marginal Cost of funds-based Lending Rate (MCLR)+2% p.a. -If the lender is as per (B) or (C): As per the interest rate mentioned in (A) or upto 1 Year Marginal Cost of funds-based Lending Rate (MCLR) + 2% p.a.as per the latest details published by the Reserve Bank of India. (C) In case of borrowing from China in Chinese Yuan:Maximum One Year Loan Prime Rate (LPR) +2% p.a.	Department

			(D) In case of the borrowing from China in convertible foreign currency other than Chinese Yuan: Interest rate pursuant to (A)	
2	Firm, company, institutions, and Nepali citizens	Relatives, Other persons, Non-resident Nepali or Institution/ Organization living or situated abroad	<p>1. Limit: Upto USD 1 Million and upto INR 100 Million in case of India.</p> <p>2. <u>Interest Rate:</u></p> <p>(A) No interest or maximum One Year Benchmark Interest Rate* +2.0% p.a.</p> <p>(B) In case of borrowing in Indian Rupees from India, the interest rate as per (A) or up to the average One Year MCLR as per the latest details published by the Reserve Bank of India.</p> <p>(C) In case of borrowing from China in Chinese Yuan: Upto One Year LPR in maximum</p> <p>(D) In case of borrowing from China in convertible foreign currency other than Chinese Yuan: Interest rate pursuant to (A)</p> <p>3. <u>Payment term:</u> Minimum 1 Year</p> <p>4. <u>Purpose:</u> Area or business not prohibited by the prevailing law. However, it cannot be used in real estate and transaction of securities.</p>	Department

3	Industry/ Company having foreign investment	Foreign Investors of Company/ Industry (including Parent Company/ Group of Companies)	<p>1. <u>Limit:</u></p> <p>2. <u>Interest Rate:</u></p> <p>(A) Rate* +2.0% p.a.</p> <p>(B) In case of borrowing in Indian Rupees from India, the interest rate as per (A) or up to the average One Year MCLR as per the latest details published by the Reserve Bank of India.</p> <p>(C) In case of borrowing from China in Chinese Yuan: Upto One Year LPR in maximum</p> <p>(D) In case of borrowing from China in convertible foreign currency other than Chinese Yuan: Interest rate pursuant to (A)</p>	Unit
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3	Industry/ Company having foreign investment	Foreign Investors of Company/ Industry (including Parent Company/ Group of Companies)	<ol style="list-style-type: none"> 1. <u>Limit:</u> Up to 100 percent of the paid-up capital of the respective foreign investor. 2. <u>Interest Rate:</u> <ol style="list-style-type: none"> (A) No charge of interest or maximum One Year Benchmark Interest Rate*+3.5% p.a. (B) In case of borrowing in Indian Rupees from India, the interest rate as per (A) or up to the average One Year MCLR as per the latest details published by the Reserve Bank of India. (C) In case of borrowing from China in Chinese Yuan: Upto One Year LPR in maximum (D) In case of borrowing from China in convertible foreign currency other than Chinese Yuan: Interest rate pursuant to (A) 3. <u>Purpose:</u> To be used in specified area of the industry/ company only. 4. Recommendation/ approval of Foreign Investment Approving Authority/concerned body (if available) 5. Certified documents disclosing the source of loan. 	Unit
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4	Industry/ Company having foreign investment	Foreign financial institutions	<ol style="list-style-type: none"> 1. <u>Purpose</u>: Project loan or project financing 2. Recommendation of Government of Nepal, Ministry of Industry, Commerce and Supply. 	Unit
5	Projects relating to Construction of Infrastructure Development	Main Company of Project (Parent Company/ group of companies)	<ol style="list-style-type: none"> 1. <u>Interest Rate</u>: No charge of interest 2. <u>Payment term</u>: According to the needs of the project. 3. <u>Purpose</u>: For current expenditure and others related to project construction and others. 4. Recommendation of project in case of inflow and outflow of amount (if available). 	Department
6	"A", "B", "C" and "D" class Bank and Financial Institutions and Infrastructure Development Bank	Indian Bank and Financial Institution	<ol style="list-style-type: none"> 1. <u>Limit</u>: Upto 100% of initial capital including loan borrowed in convertible foreign currency, if any. 2. <u>Interest rate</u>: Maximum One Year MCLR+0.5% p.a. 3. <u>Payment term</u>: Minimum 6 months to maximum 15 year (can be renewed with the approval of NRB) 4. <u>Purpose</u>: Loan disbursement in energy, infrastructure, tourism, agriculture, micro finance related sectors except in housing, real estate sectors such as land development and margin lending loan. 5. <u>Collateral/Guarantee</u>: No collateral, guarantee, bank guarantee can be given. 	Department

7	"A", "B", "C" and "D" Bank and Financial Institution and Infrastructure Development Bank	Foreign Bank and Financial Institution as well as foreign pension funds, hedge funds and other institution approved by the regulatory body.	<ol style="list-style-type: none"> 1. <u>Limit:</u> If a loan has been taken in foreign currency, such loan including the total of 100% of the initial capital. 2. <u>Interest rate:</u> <ol style="list-style-type: none"> (A) Maximum One Year Benchmark Interest Rate*+4.5% p.a. (B) In case of borrowing from China interest rate as per (A) or maximum upto One Year LPR+1% 3. <u>Payment term:</u> Minimum 6 months to maximum 15 years (can be renewed with the approval of NRB) 4. <u>Purpose:</u> Loan disbursement in energy, infrastructure, tourism, agriculture, micro finance related sectors except in housing, real estate sectors such as land development and margin lending loan. 5. <u>Collateral/Guarantee:</u> No collateral, guarantee, bank guarantee can be given. 6. Interbank transactions of convertible foreign currency and investment in investment instruments will not be allowed from loan amount. 	Department
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8	A public limited company established in Nepal or an organization authorized to issue securities	Foreign buyers in the foreign capital markets (as per Section 11 of Foreign Investment and Technology Transfer Act, 2019 (2075))	<ol style="list-style-type: none"> 1. Should be taken issuing bonds, debentures or other securities. 2. Recommendation of Securities Board. 	Unit
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Other Conditions:

1. Prior approval of NRB will be mandatory for taking foreign loan.
2. Loans should be brought through banking channel.
3. After the loan amount is received, its recording should be done in NRB.
4. Lender should not be prohibited in any manner from conducting international financial transactions or providing foreign loans in Nepal.
5. The prevailing national and international legal provision related to the prevention of financial investment in money laundering and terrorist activities should be followed.
6. The loan amount is required to be utilized in the area as specified.
7. Interest and fees are required to be paid only after deducting tax as per the prevailing legal provisions. It is not mandatory for such amount to be within the same limit as provided in Condition 8.
8. If there is any expense/ charge/ commission/fee, etc. related to the loan, it should also be within the limit of interest rate. Also, if any expense, charge, commission, fee, etc. has to be paid for the purpose of approval of the loan, arrangements should be made to pay such amount within the prescribed limit of interest rate after the loan has been received.

However, if loan is availed under S.N. 1 [(A) and (B) only for the lender], S.N. 6 and S.N. 7, the expenses, fees of Contingent nature whose provision are there in loan agreement and the payment to lender is required to be made then it is not necessary to abide by the following interest rate limit:

- a) Compensation Interest Fee: If the borrower fails to make payment of principal and/or interest, the interest on the overdue loan and/or the interest amount shall not exceed 2% per annum at the specified interest rate.

- b) Advance Payment Fee: Maximum lump sum up to 0.25% on the principal amount paid by the borrower prior to the stipulated timeline
 - c) Commitment fee: Lump sum up to 0.25%
9. The loan amount brought in foreign currency where the foreign exchange risk is vested on the concerned lender can be accounted in NPR as well. The maximum interest rate of such loan amount can be up to the average base rate (as mentioned in the latest 'Current economic and financial scenario of country' published by Nepal Rastra Bank) of the commercial banks operating by obtaining license from Nepal Rastra Bank.
10. In regard to the foreign loan being availed at a fixed interest rate, the interest rate can be to the maximum extent mentioned in the table during the time of approval of application of foreign loan by Nepal Rastra Bank. However, the tenure of implementation of fixed interest rate can be to a maximum of 2 years in one time.

Approval can be obtained from Nepal Rastra Bank for availing foreign loan without increasing the term of fixed interest rate for more than 2 years within the term of loan. If approval on fixed interest rate is not obtained from Nepal Rastra Bank, then the interest rate in accordance with the table will be implemented. This provision will come into effect only for the approval of foreign loan after the implementation of the amended byelaws.

11. In case of foreign loan to be availed according to conditions 1, 2, 3, 4, 5, and 8 of the Schedule 10 of the byelaws by the industries/ companies having foreign investment the proof of recording of foreign investment must be submitted and the application regarding foreign loan should be submitted to the Unit.
12. In transactions relating to foreign loan, no third party (including local party) can be included and no amount can be paid to the third party, apart from the lender and receiver of loan amount. If it is necessary to carry out consulting or any other activities on behalf of the lender, then arrangements shall be made in such a way that such charges are paid by the lender itself.
13. In order to avail foreign loan, no movable, immovable properties can be used for security, mortgage, guarantee and bank guarantee other than that prescribed by Nepal Rastra Bank.

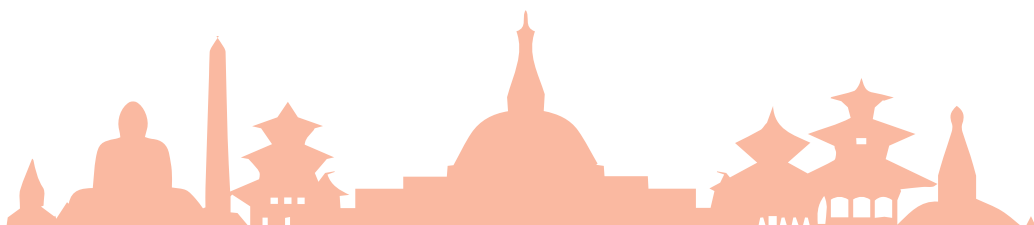
14. The foreign loan cannot be used in the areas of real estate like housing, land development and securities market.
15. Other conditions shall be as prescribed by the NRB from time to time.

***Benchmark Interest Rates:**

- a) Secured Overnight Financing Rate (SOFR) for new loan denominated in USD, Sterling Overnight Interbank Average Rate (SONIA) for new loan denominated in GBP, Swiss Average Rate Overnight (SARON) denominated for new loan denominated in CHF, Tokyo Overnight Average Rate (TONA) for new loan denomination in JPY, and Euro Short-term Rate (€STER) for new loan denomination in EUR.
- b) If the previous loan agreement has the Fallback Provisions instead of LIBOR after 31 December 2021, such provision shall apply. However, if SOFR, SONIA, SARON, TONA or €STER are mentioned in the Fallback Provisions then with the consent of both lender and borrower a maximum All-in-cost 50 basis points margin may be added on the basis of the former LIBOR.
- c) If the previous loan agreement does not have Fallback Provisions instead of LIBOR after 31 December 2021, it is denominated in USD under LIBOR Benchmark interest rate as Overnight, 1 month, 3 months, 6 months or 12 months until 30 June 2023 (in case such LIBOR Benchmark is published) it will be as per the previous loan agreement. Also, such foreign loans will be subject to LIBOR (in the case such LIBOR Benchmarks is published) as calculated by Synthetic Methodology till 31 December 2022, if the LIBOR Benchmark interest rate is 1 month, 3 months or 6 months duration for GBP and JPY under Tough Legacy Contracts.
- d) In the case of previous loan agreements not covered under clauses (b) and (c), SOFR (for loans denominated in USD), SONIA (for loans denominated in GBP), SARON (for loans denominated in CHF), TONA (for loans denominated in JPY) and €STER (for loans denominated in EUR) Benchmark Interest Rate shall be applicable instead of LIBOR after 31st December 2021. And, the maximum All-in-cost 50 basis agreed upon by both the lender and the borrower on the approved margin based on LIBOR shall be added.

DOING BUSINESS IN NEPAL 2024

HOW TO REPATRIATE?



Repatriation by Foreign Investor

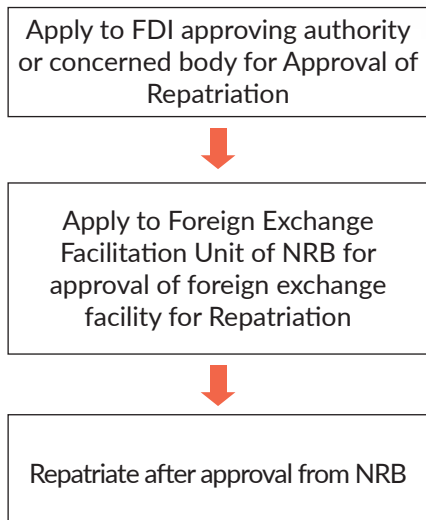
A foreign investor may repatriate its investment and/or earnings in accordance with the prevailing laws of Nepal after paying all applicable taxes. The foreign currency exchange facility to repatriate the foreign investment and earned money is provided by NRB normally based on approval/ recommendation of Foreign Investment Approving Authority or the concerned body.

Foreign exchange facility is provided by NRB for the repatriation of following foreign investment and earned money.

- a. The amount received from the sale of shares of foreign investment,
- b. The amount of profits or dividends received from foreign investment,
- c. In case the company or industry has gone into liquidation, the amount that remains after the entire liability has been settled after the liquidation,
- d. Amount of gain (royalty) received under technology transfer agreement, but, in case of royalty or fee for the use of trademark under technology transfer in the alcoholic industries other than 100% liquor exporting industry, the amount of such gain shall be as per the Foreign Investment and Technology Transfer Regulations, 2077,
- e. Lease rent amount under lease investment,
- f. The amount of damages or indemnity received from the final settlement of a case, arbitration or any other legal proceedings in Nepal,
- g. The amount to be repatriated in accordance with the prevailing laws.

Procedure for repatriation of Investment / Return

- Apply to FDI approving authority or concerned body for approval of repatriation
- Get Approval letter for repatriation
- Apply to Foreign Exchange Facilitation Unit of NRB located at single point service center for foreign exchange approval for repatriation
- After getting approval from NRB, repatriate the investment / earned money



Approval of Foreign Exchange facility from NRB for Repatriation of investment and earnings

The foreign currency exchange facility to repatriate the foreign investment and earned money is provided by NRB based on approval/ recommendation of Foreign Investment Approving Authority or the concerned body. However, in case of transaction whose nature is such that the approval of Foreign Investment Approving Authority or the concerned body may not be available approval for foreign currency exchange facility to repatriate the foreign investment and earned money may be provided by the NRB on the basis of necessary evidence and justification.

While providing approval for foreign currency exchange facility for repatriation of foreign investment and earned money, such approval for foreign currency exchange is provided in such a way that the amount of foreign investment and earned money to be repatriated shall be deposited in the bank account of the same foreign investor in whose name the foreign investment has been originally received and generally in the same country from where initial foreign investment was made.

For the approval of foreign exchange facility for repatriation of investment and earnings, application shall be made to NRB along with the required documents.

Approval of Foreign Exchange facility from NRB for repayment of foreign loans

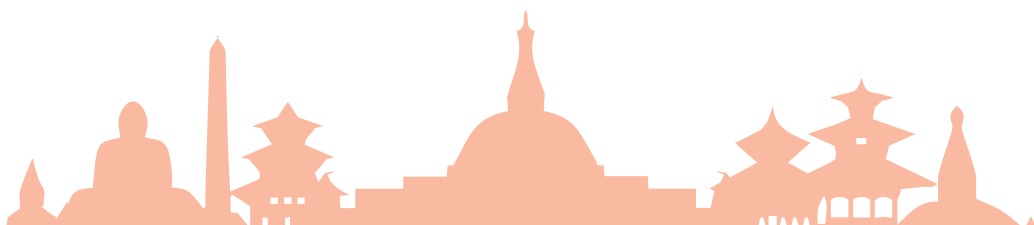
The foreign currency exchange facility required for repayment of principal and interest of foreign loan approved by NRB and accounted by NRB and included in the payment schedule approved by NRB can be obtained from the Banks and Financial Institutions. NRB approval is not required for such exchange arrangements unless there is a change in the approved repayment schedule. If the repayment scheduled been changed the approval of NRB is required before repatriation from the local bank.

For the exchange facility of foreign currency required for the payment of foreign loan the concerned borrower shall file an application along with the required documents.

When repaying a foreign loan, the amount shall be deposited in the bank account of the same foreign lender in whose name the foreign loan has been received and generally in the same country from where the foreign loan has entered.

DOING BUSINESS IN NEPAL 2024

WHAT ABOUT TAXATION?



Taxation in Nepal

Nepal levies a variety of direct and indirect taxes such as income tax (corporate income tax and personal income tax), value added tax, excise duty, customs duty, property related tax (land registration tax, property transfer tax) and others. Some of the major provisions of such taxes are given below:

A. Direct Taxes

Income Year: Mid-July of one year to Mid-July of another year (Shrawan to Ashadh as per Nepali Calendar)

Corporate Income Tax

The taxability of the income of a person in Nepal is based on two broad principles.

- For residents: on the basis of “Residence Principle”
- For Non-residents: on the basis of “Source Principle”

Note: An entity is resident in Nepal if it is registered /incorporated in Nepal. In case of company, the effective management is in Nepal in any time during the income year, then such company shall also be resident for that income year. An individual is resident in Nepal if the person stays in Nepal for 183 days or more during an income year.

Tax Rate

Corporate tax rate (General)	25%
Bank, financial institution, an entity carrying on general insurance business, telecommunication and internet service, money transfer, capital market business, securities business, merchant banking business, commodity future market, securities and commodities broker business, conducting transaction of cigarette, bidi, cigar, chewing tobacco, powder tobacco, gutkha, pan masala, liquor, beer or petroleum works pursuant to the Nepal Petroleum Act, 2040 (1983 CE), Entity carrying out financial transaction	30%
Dividend tax rate	5%
Repatriation by Foreign Permanent Establishment (FPE) of a Non-resident (over corporate tax as equivalent to a company)	5%
Non- residents carrying international flights (on gross proceeds basis), earning from communication devices installed in Nepal	5%
Non-resident person providing water transport, air transport or telecommunication service that doesn't depart or transmit from Nepal	2%
Natural Resident Individual not involved in business who receives foreign currency by providing Software or similar electronic service and advisory service outside Nepal, or by uploading audio-visual material on social media	5%

Tax Exemptions and Concessions

Industry/Entity/Person	Condition	Applicable Tax Rate / Concession /Exemption
Special Industry (i.e. Agricultural, forest based, mineral based, production or manufacturing industry not producing alcoholic or tobacco related product) (General concession)	Special Industry fully operated throughout the year	In case of Natural person: one-third of tax concession if tax is levied at the rate of 30% In case of Entity: 20% tax concession [effective tax rate – 20%]
Agricultural Business (agro-income) <i>(NB. The provincial government will enact an Agriculture tax law in the future.)</i>	Registered as any firm, company, partnership-firm and other corporate body	100% tax exemption Provided that a 50% tax rebate on the applicable tax rate is provided to the income earned by agriculture business, business of dehydrating vegetables and cold stores operated by any firm, partnership, company and other corporate body.

Further concessions on provided by Income Tax Act, 2058 (2002 CE) are as follows:

Industry/Entity/Person	Condition	Applicable Tax Rate / Concession / Exemption
Special Industry and Information Technology Industry (Employment concession) <i>(NB. The applicable rate of tax for the special industry is 20%)</i>	Direct Employment to 100 or more Nepali Citizens throughout the year	10% concession on the rate otherwise applicable <i>(Effective rate 18%)</i>
	Direct Employment to 300 or more Nepali Citizens throughout the year	20% concession on the rate otherwise applicable <i>(Effective rate 16%)</i>
	Direct Employment to 500 or more Nepali Citizens throughout the year	25% concession on the rate otherwise applicable <i>(Effective rate 15%)</i>
	Direct Employment to 1,000 or more Nepali Citizens throughout the year	30% concession on the rate otherwise applicable <i>(Effective rate 14%)</i>
	Direct Employment more than 100 Nepali Citizens covering at least 33% from among women, marginalized (Dalits) or persons with Disability throughout the year	Additional 10% concession is allowed
Special Industry (Geographical concessions) Concession for 10 Years (of the industrial plant) commencing from the year of commercial production.	Established in the remote area	90 % concession on the rate otherwise applicable <i>(Effective rate is 2%)</i>
	Established in undeveloped area	80 % concession on the rate otherwise applicable <i>(Effective rate is 4%)</i>
	Established in a less developed area	70 % concession on the rate otherwise applicable <i>(Effective rate is 6%)</i>

Special industry (Geographical concession)	Established in Karnali Province and hilly region of the Far-Western region and provides Direct Employment to more than 100 Nepali citizens	Tax exemption for 15 years from the date of commencement of the production
Special Industry/ Tourism Sector (Concession based on size of investment and number of employees)	<p>Newly set up special industry and tourism industry (except casino business) having a capital investment of more than NPR 1 billion, with direct employment for more than 500 individuals throughout the year</p> <p>Existing industry increasing their installed capacity by at least 25%, increasing their investment to NPR 2 billion and direct employment to more than 300 people throughout the year</p>	<p>No tax for 5 years from the date of operation, and 50% concession on the rate otherwise applicable for next 3 years</p> <p>No-tax for a period of 5 years from the date of operation and thereafter 50% concession on the rate otherwise applicable for next 3 years, on the income generated from its increased capacity</p>

Industry established in Special Economic Zone (SEZ)	Industry established in SEZ in mountain districts, or in hilly districts as specified by Nepal Government	No tax for a period of 10 years from the date of commencement of transactions and 50% concession on the applicable rate thereafter
	Industry established in SEZ located in areas other than above	No tax for a period of 5 years from the date of commencement of transactions and 50% concession on the applicable rate thereafter
	Dividend distributed by an industry established in SEZ	No tax for a period of 5 years from the date of commencement of transactions and 50% concession on the applicable rate for next 3 years
	Royalty or technical service fee or management service fee paid to foreigner paid by the industries established in SEZ	50% concession on applicable tax rate (effective tax rate will be 7.5% of gross amount of royalty or fee)
Person engaged in exploration and excavation of minerals, petroleum, natural gases and fuel	Started commercial operation by Chaitra, 2080 (mid-April, 2024)	No tax for a period of 7 years from the date of commencement of transactions and 50% concession on the applicable rate thereafter for 3 years
Industry established in a Zoological/Geological or Biotech Park or industry established in Technology Park / Information Technology-Park, Prescribed by GON in Nepal Gazette.	Industry established in technology/information technology parks related to software development, data processing, cyber cafe, digital mapping.	50% concession on applicable tax rate

Industry engaged in Energy (electricity) Sector	<p>Licensed Person or entity has to produce, transmit or distribute electricity by Chaitra 2084 (mid-April, 2028).</p> <p>This is also applicable to electricity produced from solar, wind and compost (bio-product)</p>	No tax for a period of 10 years from the date of commercial production and a 50% concession on the applicable rate thereafter for 5 years in the income from sale of energy.
Hydropower Projects	Reservoir-based and semi-reservoir-based hydropower projects with a capacity higher than 40 MW and lower cascading hydropower projects operated in tandem and completing financial closure within Chaitra end, 2085 (mid-April, 2029) as well as to Lower cascading Hydro power projects operating with Tandem operation under such projects	100 % tax exemption for the first 15 years and 50 % tax exemption for the next 6 years
Export Oriented Industry	Exportation of goods or Services	<p>(a) In case of natural person, 25% concession if applicable tax rate is 20% and 50% concession if applicable tax rate is 30%.</p> <p>(b) In case of entity, 20% concession on applicable tax rate.</p> <p>c) Tax concession of 50% shall be provided to the income in foreign currency from export of Business Process Outsourcing, Software Programming, Cloud Computing and similar IT based services upto FY 2084.85 (2027.28 CE).</p>

Entity (transportation infrastructure)	<ul style="list-style-type: none"> • Operation of Tram or Trolley Bus. • Construction and operation of ropeway, cable car, overhead bridge. • Construction and operation of Airport, Road, Bridge, Tunnel, subway. 	<p>40% concession on the applicable tax rate</p> <p>40% Concession on the applicable tax rate</p> <p>50%Concession on the applicable tax rate <i>(Exemption applicable for 10 years from the operation of business transaction)</i></p>
Tourism or airlines company operating international flight	<p>Capital investment of more than NPR 1 billion</p> <p>Capital investment of more than NPR 3 billion</p> <p>Capital investment of more than NPR 5 billion</p>	<p>No tax for a period of 5 years from the date of commencement of business or transaction 50% concession on the applicable rate thereafter for 3 years</p> <p>No tax for a period of 10 years from the date of commencement of business or transaction 50% concession on the applicable rate thereafter for 5 years</p> <p>No tax for a period of 15 years from the date of commencement of business or transaction</p>

Micro enterprise	<p>Micro enterprise as per as per Section 19 (1) (a) of Industrial Enterprises Act 2076</p> <p>(Fixed capital upto NPR 2 million (other than land and building), owner involved in operation and management business, having upto 9 workers including owner, annual transaction less than NPR 10 million, using engines, equipment and machinery (if any) of capacity less than 20 kW)</p>	<p>No tax for a period of 7 years from the date of commencement of business or transactions. If such industry is owned by woman, there shall be tax exemption for another 3 years.</p>
Entities Listed in security market	<p>Manufacturing entities, tourism service entities, entities engaged in production, distribution and transmission of electricity and entities related to software development, data processing, cyber cafe, digital mapping established in Technology Park / Information Technology Park, and industry operating a Zoological / Geological or Biotech Park prescribed by GON in Nepal Gazette.</p>	<p>15% concession on the applicable tax</p>
Production Industry	<p>Industry established in remote and underdeveloped area producing brandy, cider and wine based on fruit</p>	<p>40% and 25% concession respectively on the applicable tax for a period of 10 years from the date of commencement of transactions</p>

Individual or entity	Royalty income received from export of intellectual property	25% concession on applicable tax rate from such income
Individual or entity	Income from sale of intellectual property through transfer	50% concession on applicable tax rate from such income
Special Industry and Tourism related Industry	Capitalization of its profit into shares with the view of extension of its capacity	100% concession on the dividend tax on such capitalization.
Public company	Conversion of Private Company having paid up capital of NPR 500 million or more to Public Company (not applicable to companies covered by Section 12 of Companies Act 2063 (2006 CE))	10% Concession on the tax rate applicable for 3 years
Domestic Tea/Dairy Industry	Domestic Tea Production and Processing industry, Dairy industry, Textile Industry	50% Concession on the tax rate otherwise applicable
Community based health service	Health Institutions operated by communities.	20% Concession on the applicable tax
Special Industry	Established or relocated and operated in industrial areas or industrial village	50 % Concession for 3 years from the date of commencement and 25% Concession for next 5 years.
Domestic industry supplying SEZ raw material	Sale of raw material or subsidiary raw material, produced within the country to Special Industry.	20% Concession such income
Special Industry operating in Kathmandu Valley	Shifted and operated outside Kathmandu valley	100 % tax concession is provided for up to 3 years of shifting and operation of a business, and 50 % tax concession is provided for next 2 years.

Industry	Industry producing new product by utilizing only the used materials as raw materials that directly affect the environment:	50% tax concession is provided for up to 3 years from the date of operation, and 25% tax concession is provided for next 2 years.
Startup Business (as prescribed by Department)	Established by utilizing innovative knowledge, concept, skill, technology, and system having annual transactions up to NPR 10 million	100 % tax exemption is provided for up to 5 years
Industry	Producing immunization vaccine, oxygen gas and sanitary pad	No tax for a period of 5 years from the date of commencement of production, and 50% concession on the applicable rate thereafter for 2 years.
Industry Manufacturing Agricultural Tools	Established within Ashadh 2082 (Mid-July 2025)	100% of Tax exemption for 5 years from the date of business operation.
Electric Vehicle Industry	Electric vehicle manufacturing or assembling industry established within Ashadh 2082 (Mid-July 2025)	40% concession of income tax for 5 years from the commencement of the transaction

Note:

Where a person qualifies for more than one concession for the same income, the person shall be entitled to only one concession for that income at his discretion. However, Person enjoying benefit of special industry under Sec 11 (2Kha) can also avail another concession under Sec 11 if eligible.

Donation made by a person to a tax-exempt organization is allowed as a reduction to the limit of NPR 100,000 or 5% of Adjustable Taxable Income, whichever is lower. However, if any company has contributed to Prime Minister Relief Fund or Re-construction fund, the full amount of the contribution is deductible from Taxable Income.

Deductions

All the expenses incurred to derive the income (from business or from investment) are allowed for taxation if they are incurred during the year in the name of the taxpayer itself. Expense for personal purpose and paid in cash (over NPR 50,000) or payment in respect of expenditure not mentioning PAN in invoice exceeding NPR 2,000 are not allowed as deduction. However, such limitation is not applicable when goods are directly purchased from an individual related to agriculture, forest, animal and other household items.

Salary and wages expenses paid to employee or labor who do not have PAN are not allowed as deduction except for casual wages payment up to NPR 3,000.

Seed capital provided by any person up to NPR 100,000 to a maximum of 5 startup business other than the associated person, is allowed for deduction at the time of calculation of taxable income.

Apart from general deductions following deduction are capped with as follows:

Interest to shareholders with controlling interest

Limit: interest income + 50% of adjustable taxable income determined without any interest income or interest expense.

The amount or part thereof, which is in excess of limit, can be carried forward to the next income year.

This provision will be applicable if the interest has been paid to shareholder (either a non-resident, concessional person, or exempt-entity) and their control is at least 25% in Nepali company.

Repair and Maintenance Expense

Limit: Up to 7% of the depreciation base of each pool of asset (exception, this ceiling is not applicable to Air-line Company if the repair expense is relating to overhauling of aircraft).

The amount or part thereof, which is in excess of limit, can be capitalized in the asset in the beginning of subsequent Income Year and depreciation is allowed subsequently.

Pollution Control Cost

Limit: Up to 50% of adjustable taxable income from business.

The amount or part thereof, which is in excess of limit, can be capitalized in the asset in the beginning of subsequent Income Year and depreciation is allowed subsequently. Practically, no one claims their deduction under this provision.

Research and Development Cost

Limit: Up to 50% of adjustable taxable income from business

The amount or part thereof, which is in excess of limit, can be capitalized in the asset in the beginning of subsequent Income Year and depreciation is allowed subsequently. Practically, no one claims their deduction under this provision.

Note: Adjustable taxable income means taxable income without deducting the expense under consideration and donations, if any.

Depreciation

Depreciation is allowed as per written down value (WDV) basis and depreciable assets are categorized into various pools; the rate of depreciation is prescribed by Tax Authority as follows

Pool	Assets	Depreciation Rate
A	Building, Structure and Assets of similar structures including leasehold asset	5%
B	Computer, Data Processing Equipment, Furniture, Fixtures and Office Equipment	25%
C	Automobiles, Bus and Minibuses	20%
D	Construction and Earth Moving equipment, unabsorbed portion of Repair & Maintenance, Pollution Control Cost and Research and Development Cost, and assets not covered in any other pools.	15%
E	Intangible assets other than depreciable assets mentioned in Pool D	As per Life Span of Asset

Accelerated depreciation of 1/3 of applicable rate is also available in case of following entities:

- Special Industries
- Hydro Power and Power Generation
- Tram and Trolley operators
- Building and operation of ropeway, cable car, overhead bridge.
- Building and operation of roads, bridge, subway, tunnel, railway, airport way.
- Entities engaged in infrastructure development under BOOT scheme
- Co-operative registered under Co-operative Act

Special Cases of Depreciation

- Purchase of power generating asset for its own business purpose shall claim 50% of the cost of asset as depreciation allowances during income year when asset is capitalized.
- In case of Fiscal printer or electronic cash register to issue invoice shall claim 100% of the cost as depreciation in the year when such asset is purchased irrespective of the date of purchase.

Losses Carried Forward

Losses can be carried forward up to 7 years from the year of occurrence.

However, in case of business extracting petroleum products, BOOT projects, Projects involved in Electricity Powerhouse, Generation and Transmission are allowed to carry forward up to 12 years.

In case of long-term contract obtained from international bidding losses can be carried back.

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.

Tax Avoidance Scheme

If a person makes any arrangement with the purpose of avoiding or reducing tax liability, Taxation Authority may, for the purpose of determination of tax liability, re-characterize the arrangement or part of it. Similarly, if a person does any transaction with a purpose to reduce tax liability entering into 'Transfer Pricing' or 'Income Splitting' arrangement, Tax Authority has the power to re-characterize and assess the tax.

Transfer Pricing

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

The IRD may:

- Re-characterize the source and type of any income, loss, amount, or payment; or,
- Allocate costs, including head office expenses, incurred by one party in conducting business with their associate or associates (related party or related parties) based on the comparative turnovers of the businesses.
- Formalities for appropriate-adjustment will be applicable for the taxpayer from the countries having tax treaty with Nepal.

The tax law, in brief, states that transaction should be at arm's length price. Presently, there is no filing requirement or requirement to prepare a detail Transfer Pricing Study Report in Nepal. Accordingly, no local standard requirement or compliances to be done. However, IRD is working on the Transfer Pricing Issue and soon there will be some specific provisions regarding Transfer Pricing in Nepal.

Double Taxation Avoidance Agreement (DTAA)

Nepal has entered into tax treaties with 11 countries (Austria, Bangladesh, China, India, Republic of Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand). Nepal is member of SAARC limited tax treaties. The purposes of tax treaties are to avoid international double taxation on the same income and to prevent tax avoidance.

Cooperatives

Cooperatives registered under Cooperative Act, 2074 and not involved in transactions exempted under section 11(2) shall be levied tax as follows:

- Cooperatives operating in Municipality areas :5%
- Cooperatives operating in sub- metropolitan areas :7%
- Cooperatives operating in metropolitan areas :10%

However, tax rates for saving and credit cooperatives shall be as under:

- a. Operating in municipality areas: 10%
- b. Operating in sub metropolitan areas: 15%
- c. Operating in metropolitan areas: 20%

Personal Income Tax

An individual is resident in Nepal if he resides for a period of 183 days or more in income year (mid-July to mid-July basis). A person who is not resident of Nepal is non-resident individual.

For Resident Person -FY 2080/81 (2023/24CE)

Assessed as Individual		Assessed as Couple	
Income Level (NPR)	Tax Rate	Income Level (NPR)	Tax Rate
Up to 500,000	0% / 1%*	Up to 600,000	0% / 1%*
Next 200,000	10%	Next 200,000	10%
Next 300,000	20%	Next 300,000	20%
Next 1,000,000	30%	Next 900,000	30%
Further upto 5,000,000	36%	Further upto 5,000,000	36%
More than 5,000,000	39%	More than 5,000,000	39%

**Note: 1% SST shall not be applicable in case of proprietorship, pension income and the individual contributing in the Social Security Fund.*

For Non-Resident Person

SN	Nature	FY 2080.81 (2023.24 CE)
1.	Income earned from normal transactions (employment or business)	25% flat rate
2.	Income earned from the transactions subject to withholding tax	withholding tax will be final

Note:

The following amounts are deductible:

- Contribution to Retirement Payment up to one-third of assessable income to maximum of NPR 300,000 (in case of Social Security Fund contribution ceiling NPR 500,000)
- Donation to tax exempted entities up to maximum of NPR 100,000
- Insurance premium up to maximum of NPR 40,000
- Health Insurance premium up to NPR 20,000
- House insurance premium up to NPR 5,000
- Remote area allowances up to maximum of NPR 50,000
- 25 percent of the exemption limit allowed to resident natural person having pension income
- Foreign Allowance – 75% of Foreign Allowance
- Pension -25% of Taxable income
- Handicapped Allowance- 50% of first tax slab

Further, medical tax credit up to maximum of NPR 750 is allowed and remaining can be carried forward. Additionally, 10% tax rebate is allowed to female individual earning only employment income.

Withholding Taxes

Payment Subject to Withholding	Withholding Tax Rate (%)	Final Withholding (Yes or No)
If the payee is non-resident	As below	Always final
Interest, Natural Resource, Royalty, Commission, Service Fee, Sales Bonus payment by a resident person having source in Nepal	15%	No
Resident employment company making payment of employment related commission to non-resident	5%	Yes
Payment of interest on deposit to Life Insurance Company by resident Bank and Financial Institutions.	5%	No
Payment of interest on loan provided to each other by Cooperative bank and Co-operatives	No TDS	
Payment of interest (having Nepal source) to individual (other than related to business) by resident bank, financial institution, cooperative, any other entity issuing debenture, or listed companies	6%	Yes
Lease payment of aircraft	10%	No
Service payment to a resident person registered under VAT Payment of more than NPR 50,000 under a contract or agreement	1.5%	No
House rent payment having source in Nepal	No federal tax, but there is local tax, rate may vary to local authorities (indicative rate is 10%)	Yes
Rent other than house rent	10%	No
Dividend, Gain from Investment Insurance	5%	Yes
Windfall Gain	25%	Yes

Payment for service to a non-resident company	15%	Yes
Payment of repair & maintenance of contract or agreement to a non-resident company	5%	Yes
Payment of re-insurance premium to a non-resident	1.5%	Yes
Payment for the carriage service and vehicle provide in rent for carriage service (VAT Unregistered person)	2.5%	No
Payment for the carriage service and vehicle provide in rent for carriage service (to VAT Registered person)	1.5%	No
Resident BFIs making payment of Interest on loan taken from foreign banks or other financial institutions in foreign currency and investing in specified areas prescribed by NRB.	10%	Yes
Resident BFIs on providing foreign exchange facility for language test or standardized test fee to students going abroad	15%	Yes
Reward/rebate awarded to consumer making payment through electronic payment medium including payment card, digital wallet, mobile banking on purchase of goods or services.	No TDS	
Payment of registration fee, education fee, and exam fee to foreign university or school	5%	Yes
Receipt of payment in foreign currency by providing software or similar electronic service outside Nepal	5% (Deducted by banks and financial institutions as advance Tax)	No

Interest on loan taken in foreign currency from foreign banks or other financial institutions by reservoir or partial reservoir hydropower project of more than 200 MW and whose financial closure have been completed within Chaitra end, 2082 (13 April 2026)	5% TDS	Yes
Other payment to non-resident	As per written notice by IRD	Yes
Consideration distributed to individual by mutual fund	5%	Yes
Payment for use of satellite, bandwidth, optical fiber, tools related to communications or electricity transmission line	10%	No
Royalty payment to a resident individual for literary article and composition	1.5%	No
Payment made by a resident e-commerce operator to a person associated with that platform against the sales of any goods/ services	1% (advance tax)	No

Note:

In case of payment of rent to an individual, no TDS is required to be deducted as per Income Tax Act 2058 (2002 CE).

Capital Gain Tax

Gain on Sale of Shares

Seller	Tax collected at source (TCS)		Annual tax rate
	Listed Entity	Unlisted entity	
Resident - individual	Ownership of more than 365 days- 5%	10%	Same as TCS rate
	Ownership of 365 days and less than 365 days - 7.5%		
Resident -entity	10%	15%	Corporate tax rate
Other	25%	25%	

Gain on Transfer of Land & Building

Seller	Tax collected at source (TCS)		Annual tax rate
	Owned less than 5 years	Owned 5 Years or more	
Resident - individual	7.5%	5%	Same as TCS rate
Resident -entity	1.5%	1.5%	Corporate tax rate

Change of Control

Where there is change of 50% or more in the underlying ownership of an entity as compared with its ownership 3 years previously, the entity shall be treated as disposing off any assets and any liabilities owned by it at the market price. Where there is change in ownership during the Income Year of an entity, the parts of the Income Year before and after the change in ownership are treated as separate Income Years.

Compliance Requirement

Income Tax Return

Within three months from the end of Income Year. If application is made to Tax Office for extension, IRD may extend such notice for maximum of three months.

Any error on Income Tax Return submitted can be rectified by submitting revised Income Tax Return within 30 days from the date of submission of erroneous tax return.

Estimated Tax Return

Taxpayer needs to file estimated tax return till Mid-January.

They need to pay installment tax on the basis of estimated tax liability

- Within Mid-January (Poush end) of Income Year (First Installment) – 40% of estimated tax liability
- Within Mid-April (Chaitra end) of Income Year (Second Installment) – 70% of estimated tax liability
- Within Mid-July (Ashadh end) of Income Year (third Installment) – 100% of estimated tax liability

Estimated tax liability, for this purpose, should be not less than 90% of tax for that year. An interest at the rate of 15% p.a. is charged in case a lesser amount of estimated tax is deposited as a result of an estimation error of more than 10% as compared to the final tax liability.

Tax Assessment

Assessment system is based on Self-Assessment. However, an assessment under Self-Assessment scheme may be subject to review and amendment, termed as “Re-assessment” or “Amended Assessment” by Tax Authority which can be performed within four years from the due date of submission of Income Tax Return. For example, an amended assessment of Income tax return for FY 2080.81 (2023.24 CE) may be issued by Ashwin end 2085 (16 October 2028).

Advance Ruling

If there is ambiguity in application of any issue as per Income Tax Act, there is provision of making application for advance ruling to IRD and the instruction issued by IRD is binding to the applicant and the department both.

Appeal

If the taxpayer is not satisfied with the decision of amended assessment by Tax Authority, the taxpayer has a right to apply for administrative review by depositing 100% of undisputed amount and one-fourth of disputed amount. Further, if not satisfied with the decision of administrative review, the taxpayer can file appeal to Revenue Tribunal by depositing 100% of undisputed amount and 50% of disputed amount as a cash deposit or a bank guarantee (the amount previously deposited for administrative review in Inland Revenue Department shall be considered).

Tax amnesties as per Finance Act, 2080 (2023)

1. Special concession has been provided to media house for 25% rebate on income tax on FY 2079.80 (2022.23 CE) on the income earned as per their objectives.
2. Special provision for entity for Income on bonus shares issuance out of share premium from FPO has been introduced where the interest and fee shall be waived if tax amount on such income is deposited within Mangsir end, 2080 (16 December 2023), if such income has not been included while submitting income tax returns upto FY 2078.79 (2021.22 CE).
3. Special Provision for gain on merger and acquisition has been introduced where the interest and fee shall be waived if tax amount on Bargain Purchase Gain at the time of merger and acquisition if deposited within Mangsir end, 2080 (16 December 2023), if such income has not been included while submitting income tax returns upto FY 2078.79 (2021.22 CE).

4. Special concession to persons carrying out foreign employment and educational consultancy services has been introduced for waiver of interest and fee if real income is declared (i.e. if otherwise declared earlier) for previous FYs if such income is included and tax is submitted within Chaitra end, 2080 (12 April 2024).

Digital Service Tax (DST)

To bring the foreign technology-based companies into the purview of Nepalese tax jurisdiction, the concept of Digital Service Tax (DST) has been started in Nepal under the administration of the Inland Revenue Department. Digital service tax of 2% on transaction value shall be collected on digital services provided by non-residents to customers in Nepal. Following are the major provisions relating to DST:

- Tax shall not be levied for digital services provided to consumers in Nepal up to transaction value of two million rupees per income year. However, if transaction exceeds more than two million rupees, tax shall be levied on entire transaction.
- Foreign Service providers shall file the return and deposit tax amount in each fiscal year.
- Taxable person shall file an application to the office for getting Permanent Account Number (PAN) within 30 days of crossing the threshold.
- Income on which digital service tax has been deposited shall not be taxable under the Income Tax Act, 2058.
- Fine of 0.1% per annum of the transaction value to be collected for the delay in filing return and interest at the rate of 15% per annum of payable amount to be charged on delay in payment of tax. A fine of 25% of the deficit tax amount to be levied in case of under deposit of tax or fraudulent activities.

The Inland Revenue Department has issued the “Procedures relating to Digital Service Tax, 2022” applicable from 32 Ashadh 2079 (17 July 2022).

Introduction of Luxury Fee

The Finance Act, 2080 (2023 CE) has introduced Foreign Tourism Fee of 5% to Nepali tourists travelling abroad for tourism visit:

- To be collected by the tour package seller, and
- To be collected by the businesses sending associated personnel in foreign visits in connection with business promotion

The return of transactions has to be submitted and the amount has to be deposited within 25th of the following month (else, 15% p.a. interest for non-deposit and 2.5% p.a. fee for non-submission of report shall be levied). The non-collection of luxury fee shall attract additional fee of 25%.

Introduction of Foreign Employment Service Fee

The Finance Act, 2080 (2023 CE) has introduced Foreign Employment Fee of 1% on the amount collected by the foreign employment service providers.

Such amount shall be used for the benefit of the persons going abroad for foreign employment.

The return of transactions has to be submitted and the amount has to be deposited within 25th of the following month (else, 15% p.a. interest for non-deposit shall be levied).

B. Indirect Taxes

Value Added Tax (VAT)

Applicability

VAT is applicable on supply of goods or services;

- supplied within Nepal,
- imported into Nepal, and
- exported from Nepal

Some goods or services which are of necessities and agro-products are exempted and some are zero rated (export of services)

Tax Rate - Single rate 13%

Registration

Person supplying the goods crossing threshold of NPR 5 million and supplying services or goods & services both crossing the limit of NPR 2 million are required to be registered under VAT. The compulsory registration threshold for registration in VAT for the provider of transport service or rental of transport vehicle shall be NPR 5 million.

Small vendors to the extent of threshold may voluntarily register.

VAT Records

Purchase book, Sales Book and VAT records, either manual or computerized (complying permission procedures), are the basic records to be maintained by a registered person. The retention period is six years.

VAT Credit and Refund

VAT paid on purchases relating to the business, excluding VAT paid on food, beverage, entertainment, and petrol used for vehicles (no-credit items), are allowed of input tax credit within one year from the date of transaction. In case of VAT paid on purchase of automobiles, only 40% of VAT payment is allowed for credit.

Input tax credit of a tax period which could not be adjusted against next four consecutive months, the taxpayer can claim the refund. Similarly, in case of more than 40 percent of export out of total sales in a tax period is eligible for refund.

Such refund shall be requested within 3 years from the end of tax-month.

Input tax credit of a tax period which could not be adjusted against next four consecutive months, the taxpayer can claim the refund. Similarly, in case of more than 40 percent of export out of total sales in a tax period is eligible for refund.

Such refund shall be requested within 3 years from the end of tax-month.

VAT Return

Every registered taxpayer is required to submit VAT return within 25 days from the end of Nepalese Calendar month. However, in case of printing press, printing and electronic publications or broadcasting houses desire, the department may fix tax period of four months (trimester). The tax period of four months shall also be applicable to the person having annual transaction upto NPR 1 crore (10 million).

Facilities

Bank guarantee facility is available for VAT payable on import of raw materials solely usable for production of exportable goods. For this benefit, industry shall have export record of more than 40% of its sales during previous 12 months and domestic value addition of at least 10%.

Tax Assessment

Assessment system is based on Self-Assessment. However, an assessment under Self-Assessment scheme may be subject to review and amendment by Tax Authority which can be performed within four years from the date of submission of VAT Return. However, tax officer shall not conduct reassessment of tax where, the revenue tribunal or other authorized court has already amended or reduced the determined tax. But such bodies may order for reassessment of tax, and tax officer may determine the tax.

Digital Services by Non-Resident Service Providers

1. Non-resident person having a business of digital services and whose taxable transaction for the past twelve months exceeds Twenty Lakhs (NPR 2 million) must be registered under VAT Act.
2. The registration procedure for the Non-Residents providing digital services shall be as determined by the department.
3. If the business of a Non-Resident person providing electronic services registered under subsection (1) is closed, the registration shall be cancelled as per the procedures determined by the department.

Note:

"Digital Services" means the following services provided through the internet to the consumer for which information technology is essential and is provided automatically with minimal human intervention:

- a) Advertising services
- b) Cinema, Television, Music, Over the Top (OTT), and membership in any other services,
- c) Data Collection Services
- d) Cloud Services
- e) Gaming Services
- f) Mobile Application Services
- g) Online Market Place services and other related services.
- h) Supply and updating of software
- i) Downloading services including facts, pictures, etc.
- j) Counselling, skill development and training services
- k) In addition to clauses (a) to (j), other related services

Penalty for Digital service providers

Twenty thousand rupees for each time for the violation of an order given by the tax officer to register

Advance Ruling

If there is ambiguity in application of any issue as per VAT Act, there is provision for making application for advance ruling to IRD and the instruction issued by IRD is binding to the applicant.

Appeal

If the taxpayer is not satisfied with the decision of amended assessment by Tax Authority, the taxpayer has a right to apply for administrative review by depositing one fourth of disputed amount and further to Revenue Tribunal by depositing entire of the undisputed amount of tax and fifty percent of the disputed amount of tax and fine as cash deposit or bank guarantee (amount deposited for administrative review in Inland Revenue Department shall also be considered).

Value Added Tax amnesties as per Finance Act, 2080 (2023 CE)

1. VAT waiver has been introduced for eye hospital for waiver of remaining VAT, additional duty, interest and penalty if VAT has not been collected and deposited on VAT attractive transactions from FY 2076.77 (2019.20 CE) till 2080 Jestha 14 (28 May 2023).

The amount of 5% of such transaction should be deposited within Ashwin end, 2080 (17 October 2023). VAT of earlier FYs shall also be waived.

Same facility shall be available if any pending case is withdrawn and amount is deposited.

2. VAT waiver has been introduced to manufacturer or trader of Suji (granulated wheat) for waiver of remaining VAT, additional duty, interest and penalty, if VAT has not been collected and deposited from FY 2071.72 (2014.15 CE) till 2080 Jestha 14 (28 May 2023).

The amount of 5% of such transaction amount should be deposited within Ashwin end, 2080 (17 October 2023).

Same facility shall be available if any pending case is withdrawn and amount is deposited.

3. VAT waiver has been provided to non-resident person providing digital service for waiver of fee, interest and additional duty for those having annual digital service sales above NPR 20 lakh (2 million), if PAN is obtained, and VAT upto Jestha end, 2080 (15 June 2023) is deposited within Ashad 25, 2080 (10 July 2023).

Such facility is available also for those who have already obtained PAN.

4. VAT waiver is provided to person carrying out hire purchase transactions for waiver of VAT, additional duty, interest and penalty thereof, if VAT has not been collected and deposited.

Amount of 2% of transaction amount from FY 2074.75 (2017.18 CE) to FY 2077.78 (2020.21CE) should be deposited within Mangsir end, 2080 (16 December 2023).

VAT of earlier FYs shall also be waived.

Same facility if any pending case is withdrawn and amount is deposited.

5. VAT waiver on grant received by NGOs has been provided for the waiver of VAT assessed, additional duty, interest and penalty thereon, to the NGOs registered under Non-Governmental Institution Registration Act, 2034 BS, if VAT assessment has been done and amount is due, or if the pending case is withdrawn.

The application should to be submitted within Mangsir end, 2080 (16 December 2023).

6. VAT waiver is provided to person carrying out construction business for the waiver of additional duty, interest and penalty, if VAT return / VAT amount upto Chaitra end, 2079 (13 April 2023) has not been submitted / deposited.

The VAT amount and 50% of interest amount should be deposited within Poush end, 2080 (14 January 2024).

7. VAT waiver has been introduced to person carrying out transport service for the waiver of VAT, additional duty, interest and penalty thereof, if VAT has not been collected and deposited(due to non-registration in VAT).

The amount of 5% of the transaction amount during VAT attractive period should be deposited within Poush end, 2080 (14 January 2024).

Same facility is available if VAT has been assessed and remaining due.

Same facility is available if any pending case is withdrawn and amount is deposited.

8. VAT waiver has been provided to industry based on herbs for waiver of remaining VAT, additional duty, interest and penalty, if VAT has not been collected and deposited from FY 2071.72 (2014.15 CE) till 2080 Jestha 14 (28 May 2023).

The amount of 5% of such transaction amount should be deposited within Poush end, 2080 (14 January 2024).

Such person has to be registered in VAT if not registered.

Same facility is available if any pending case is withdrawn and amount is deposited.

Removal of Items from Schedule 1 (VAT Exempt List)

Certain commodities that were previously free from VAT are now VAT attractive after the amendment in VAT Act and Schedule, including the items of basic necessities like potatoes and onions. This choice has had a troubling effect on how common people conduct their daily lives. The implementation of VAT on necessities has led to higher prices and greater expenses of living for the general public, potentially straining household budgets and posing financial difficulties for individuals who are already struggling financially.

Some major items removed from Schedule 1 "VAT Exempted List":

Group	Details
Group 1	Flowers used for ornamental purpose
	Potato, Onion, Peas, Apple, Avocado, Coffee Beans, Maize Flour, soya chunks, Cotton
Group 2	Kerosene
Group 3	Various Frozen Meat
Group 4	Tractors, Track Laying Tractors
Group 5	Scooter used by incapacitated persons, various COVID-19 related items
Group 9	Air Travel, Transport / delivery service and its rental, local cargo
Group 11	Aircrafts, Helicopters, its engine and parts, Trekking and tour package related service

Note: This is not the exhaustive list.

Note: As per the notice from IRD dated 2080.08.22, potato and onion produced in Nepal are VAT exempt.

VAT on Air travel Service

The finance Act 2080 (2023 CE) has imposed VAT on air travel service for the first time in Nepal. Domestic air service providers (air lines) shall collect VAT on air ticket price. In the case of international air travel service, VAT shall be collected on the price of the air ticket upto the destination mentioned in the ticket for departure from Nepal. Whether the air ticket of such international flight is issued or purchased from anywhere in Nepal or outside Nepal by any means including online medium, the air travel service provider (Airlines Company) shall collect VAT on air ticket price. While issuing two way air ticket, VAT is not required to be collected on the air ticket price for travel from abroad to Nepal. For air ticket issued by person registered in Nepal but not departing from Nepal, the VAT shall not be levied.

Excise Duty

Applicable Act

Excise Act 2058 (2002 CE) and Excise Rules 2059 (2003 CE) and amendment made by Finance Act from time to time.

Applicability

Excise Duty is applicable to goods/services produced/imported into Nepal. Relaxation and exemption are mentioned to certain goods produced in Nepal.

Tax Rate

Specific to individual item based on specific rate or ad-valorem basis.

Valuation

On production – Factory Price

On import–Value for customs purpose plus customs duty

Licensing

For the items where excise duty is levied, no one can manufacture, import, sale or store a product without taking license. License taken is valid for one year and has to be renewed by paying renewal fee.

Excise Duty Credit

Excise duty paid on purchase of raw materials and auxiliary materials allowed. No excise duty credit is allowed to packaging materials.

Management System

Physical Control System – in case of alcohol, spirit, molasses, beer and khudo.

Self-Removal System – in case of goods other than tobacco related products

Facilities

Bank Guarantee Facility is provided to goods imported through bonded warehouse.

Full exemption of excise duty is provided in case of export. Similarly, full exemption is provided to industries producing goods using scrap more than 90%.

Records

Records of excisable goods purchased, produced, sold, released and balance of stock as certified by excise duty officer.

Time of Payment

Physical Removal System	At the time of issuance of invoice
Self-Removal System	Within 25 th of the month following the issue of invoice
Goods imported	At the time when such goods enter Nepal through custom point

Excise Return

Within 25 days from the end of Nepalese Calendar month.

Advance Ruling

If there is ambiguity in application of any issue as per Excise Act, there is provision of making application for advance ruling to IRD and the instruction issued by IRD is binding to the applicant.

Appeal

If the taxpayer is not satisfied with the decision of amended assessment by Tax Authority, the taxpayer has a right to apply for administrative review by depositing one fourth of disputed amount and can further appeal to Revenue Tribunal by depositing 100 % of undisputed tax and 50 % of disputed tax, charges and interest as a cash deposit or a bank guarantee (amount deposited for administrative review in Inland Revenue Department shall also be considered)

Excise Duty amnesties as per Finance Act, 2080 (2023 CE)

The provision for waiver of excise duty to milk-based drinks industry has been introduced for waiver of penalty and delay fee for the industry based on Self Removal System, if Excise duty return / amount upto 2079 Chaitra end (13 April 2023) is submitted / deposited within Ashwin end, 2080 (17 October 2023).

The license has to be obtained if not obtained yet.

Same facility is available if any pending case is withdrawn and amount is deposited.

Revision in Excise duty in Electric Vehicles:

Capacity	Excise duty (in %)
Upto 50 KW	0
50 – 100 KW	10
100 – 200 KW	20
200 – 300 KW	45
Above 300 KW	60

Customs Duty

Applicable Act

Customs Duty Act 2064 (2007 CE) and Customs Duty Rules 2064 (2007 CE) and amendment made by Finance Act from time to time.

Applicability

Customs Duty applies to import and export of goods and services.

Tax Rate

Specific to individual item (as prescribed in tariff on the basis of HS code)

Taxable Value

Based on transaction value determined as per General Agreement on Tariff and Trade 1994 and valuation principles mentioned in Customs Duty Act.

Facilities

Bank Guarantee Facility is provided to export industries and Duty-Free Shops. Further, certain customs exemption is provided to those industries established in Special Economic Zone (SEZ).

Special exemption/concession is provided to those goods if imported from neighboring countries like China, India. Also, concessional tariff rate applicable for the import of those goods which are imported under bilateral/multilateral agreement.

Post Clearance Audit (PCA)

Customs Authority can make PCA after clearance of goods as required.

Appeal and Review

If an importer is not satisfied with the valuation made by Custom Authority, then such person can apply to Valuation Review Committee.

Amendment in Custom duty in gold jewelry

Finance Act 2080 (2023 CE) has revised the Customs duty in Gold jewelry accompanied by persons returning to Nepal from abroad as follows:

Custom duty waiver:

For male – upto 25 gram

For female – upto 50 gram

However, items which are shaped as ordinary jewelry without the use of chemicals shall not be treated as Jewelry for this purpose.

Revision in Customs duty in Electric Vehicles:

Capacity	Custom Duty (in %)
Upto 50 KW	10
50 – 100 KW	15
100 – 200 KW	20
200 – 300 KW	40
Above 300 KW	60-80

Other Taxes

Infrastructure Tax

NPR 10 per liter for import of petrol and diesel.

Road Repair and Improvement Fee

NPR 4 per liter in petrol and NPR 2 per liter in Diesel

Pollution Control Fee

NPR 1.50 per liter in petrol and diesel

Telephone Ownership Fee

NPR 500 per connection in case of postpaid and landline and 2% of value of SIM and Recharge Card

Telecommunication Service Charge

To be charged from customer 10% of the collected amount.

Casino Royalty

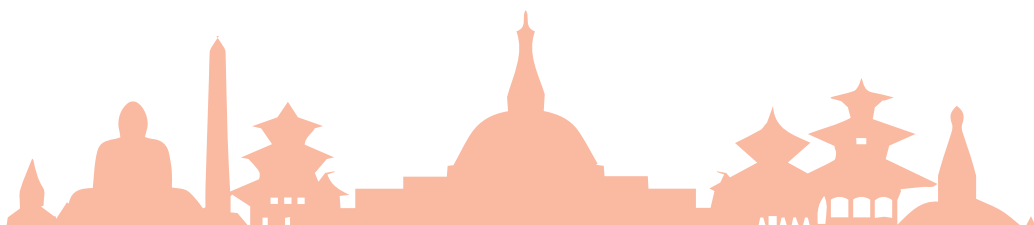
Annual Royalty for Casino – NPR 50million.

Annual Royalty for Casino using only modern equipment and machines – NPR 15 million

Note: 40 % of such royalty amount shall be deposited within Poush end, another 30 % within Chaitra end and remaining 30 % within Ashadh end.

DOING BUSINESS IN NEPAL 2024

**WHAT ABOUT OTHER LEGAL
ASPECTS?**



The Foreign Investment and Technology Transfer Act 2075 (2019 CE)

Foreign Investment

Foreign Investment includes the investments by a foreign investor in Nepal,

- through shares in foreign currency,
- reinvestment of earnings,
- lease financing of specified equipment like airlines, ships, machineries and equipment (up to prescribed threshold),
- investment in Venture Capital Funds (VCFs) by institutional foreign investors,
- investment in listed securities through secondary market by VCFs,
- acquisition of shares/assets of existing companies,
- issuance of securities in foreign capital market,
- investment made through technology & know-how transfer agreement,
- Investment maintained by establishing and expanding an industry in Nepal.

Technology Transfer

"Technology Transfer" means any transfer of technology to be made under an agreement between an industry and a foreign investor on the following matters:

- Patent, design, trademark, goodwill, technological specificity, formula, process,
- User's license, technological know-how sharing or use of technological knowledge (franchise),
- Provision of foreign technical adviser, management and marketing service or other technological skill or knowledge.

Foreign Investor

"Foreign Investor" means any foreign individual, firm, company or corporate body, Non-resident Nepali, Foreign Government, International Agency and Final-Interest Holder or ultimate beneficiaries involved in foreign investment.

Permission to be obtained

For investment in an Industry with investment up to NPR 6 Billion, permission of foreign investment or technology transfer to be taken from Department of Industry (DOI), and from the Investment Board of Nepal (IBN) if it is in excess of NPR 6 Billion. Moreover, in some sectors i.e. Banking and Insurance, approval from other agencies like Nepal Rastra Bank, Insurance Board is also required.

Minimum Threshold of Foreign Investment

The minimum threshold for the foreign investment has been revised to NPR 20 Million, earlier it was NPR 50 million. A foreign investor is required to invest such amount as a minimum as per the "Foreign Investor" which can be invested in tranches within prescribed time frame.

Moreover, for the Investment Industry required minimum investment will be NPR 1 Billion as prescribed by the government of Nepal.

In case of investment made by a Non-resident individual through an investment company established jointly by Nepal Government and Non-Resident Nepalese, the minimum threshold shall not be applicable. (Nepal Gazette dated 14th Nov 2022)

Moreover, in case of investment in industry based on information technology, the minimum threshold of investment will not be applicable if the approval is sought via automatic route. (Nepal Gazette 2nd October, 2023). The industries which are allowed for such waiver are: technology park, I.T. Park, biotech park, software development, data processing, digital mapping, business process outsourcing, knowledge process outsourcing, data center, data mining, cloud computing, web portal, web design service. However, the authorities are yet to develop the framework/mechanism for the automatic route and therefore this waiver will only be available once such framework/mechanism is developed.

Investment through a Venture Capital Fund

A foreign investor can establish a venture capital fund with the approval of Securities Board of Nepal (SEBON) for investment in the equity shares of a company in Nepal.

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. However, information such as the minimum securities to be purchased, the ceiling of investment, minimum securities holding period, and foreign currency reserve fund to be maintained by the foreign investor etc. are yet to be prescribed. (This provision will be applicable after the Nepal Government publishes a notice in Nepal Gazette.)

Issue of Bonds, Debentures or Securities

Any public company established in Nepal or a corporate body that has obtained approval for issuing debentures in accordance with the prevailing law can, with the approval of Nepal Rastra Bank and the Securities Board, issue bonds, debentures, or securities in foreign security market to raise foreign loan or foreign currency.

Any company established in Nepal with foreign investment can raise loan from local market by issuing securities after obtaining required approvals in accordance with the prevailing law.

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 Industry with foreign investment can raise loans from foreign BFIs in the form of project loan or project financing agreement (in accordance with the prevailing law, on recommendation of the Ministry and with the approval of NRB).

Escrow Agreement

A foreign investor for the purpose of their foreign investment can enter into a tripartite escrow agreement between their partner investor or another foreign investor and any commercial bank certified by NRB or Infrastructure Development Bank. As per the separate circular issued by NRB, the bank as a party to the escrow agreement acts as an agent for the parties and will also have right of enforcement.

Repatriation

Foreign investor is entitled to repatriate the following amount outside Nepal in the currency as set out in the agreement:

- The amount received by the sale of the share of foreign investment as a whole or any part thereof.
- The amount earned from profit or dividend.
- The amount received from the outstanding amount after liquidation of a Company or an Industry and after the payment of liabilities.
- The amount received as a Royalty under the Technology Transfer Agreement.
- The amount received from the Lease Rent.
- Compensation granted by tribunal after end of litigation, arbitration or other legal procedure.
- Other amount that can be repatriated under prevailing law.

Provisions Related to Visa

- The non-tourist visa not exceeding six months shall be granted to a foreign citizen who visits Nepal to make a study, research or survey for foreign investment.
- The business visa shall be granted to a foreign investor or one authorized representative of him or her and the family members of such an investor or representative to stay in Nepal until the foreign investment equal to such minimum amount as prescribed is maintained.
- Non- tourist visa is only granted upon obtaining work permit, for high-skilled and technical workers after demonstrating that equivalent workers are not available in Nepal after undergoing a vacancy procedure as prescribed under labor law and as per the labor law, maximum 5% of the total employees can have the Work permit for the foreign worker in normal situation.

Settlement of Disputes

- The dispute may be resolved from the mutual consultation, and if required, the Department of Industry may facilitate to resolve the dispute.
- If the dispute cannot be resolved with the mutual consultation, then the dispute shall be resolved as per the parties' written agreement.

- If the parties' agreement is silent regarding the dispute settlement, then dispute shall be resolved by arbitration. Unless otherwise agreed to by the parties, the arbitration proceedings shall be in accordance with UNCITRAL Rules, the arbitration will be governed by substantive laws of Nepal and venue will be in Nepal.
- The new FITTA provides the freedom to parties to enter into an agreement for settlement of dispute. This means that investment agreement can be governed by foreign law and any dispute under such agreement can be submitted to the foreign courts or arbitration with some limitation for enforcement of arbitral award.
- Even though the new FITTA provides freedom to parties to enter into an agreement for dispute settlement, there are two important concerns:
 - a. According to the **Arbitration Act, 1999** of Nepal a foreign arbitral award can be enforced in Nepal only if (A) Nepal is party to a treaty related to enforcement of foreign arbitral award, and (B) the award is rendered in the territory of the party to that treaty subject to the conditions set out at the time of being party to that treaty itself. Also, it is essential that the dispute between the parties amount to commercial dispute under laws of Nepal and there needs to be reciprocity between Nepal and the foreign country for enforcement of foreign arbitral award.
 - b. Besides that, the **Mutual Legal Assistance Act, 2014** is also vital and should consider a principal legislation governing enforcement of Foreign Judgment in Nepal. As per the provisions of this Act, it is mandatory to have bilateral treaty as a condition for enforcement of foreign judgment in Nepal and till now Nepal has not signed any such treaty with any foreign country.

One Stop Service Centre

The FITTA 2019 has introduced One-Stop Service Mechanism, which is to be established as per the prevailing law. Government of Nepal can provide exemptions, facilities, concession or services to foreign investors through One-Stop Service Mechanism. Such services are registration of Industries, various approvals, labor permit, visa service, quality check and control of products produced by industries and others. Based on this provision, the One Stop Service Center has been established and has been functioning now within the premises of the Department of Industry (DoI).

Hiring Expatriates

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

Industries or Businesses Restricted for Foreign Investment

1. Industry except large scale industry* related to poultry farming, fisheries, bee-keeping, fruits, vegetable, oil seeds, pulse seeds, dairy industry and other sector of primary agro-production that exports less than 75 per cent of its production Cottage and small industries,
2. Personal service business (hair cutting, Beauty Parlor, Tailoring, Driving etc.),
3. 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,
4. Real estate business (excluding construction industries), retail business, internal courier service, local catering service, moneychanger, remittance service,
5. Travel agency, guide involved in tourism, trekking and mountaineering guide, rural tourism including home-stay,
6. Business of mass communication media (newspaper, radio, television and online news) and motion picture of national language,
7. Management, account, engineering, legal consultancy service and language training, music training, computer training, and
8. Other consultancy services having foreign investment of more than fifty-one percent.

The Foreign Investment and Technology Transfer Rules 2077 (2021 CE)

100% ownership allowed

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 2075 (2019 CE).

Limit of royalty repatriation

1. Annual Royalty against all types of technology transfer can be repatriated subject to following limits.

Royalty base	On local sales	On export sales
Fixed amount or as a % of gross sales	Upto 5% of gross sales (net of taxes)	Upto 10% of gross sales(net of taxes)
As a % of net profit	Upto 15 % of net profit	Upto 20% of net profit

2. Annual Royalty or any fee against use of trademarks only can be repatriated subject to following limits.

Royalty base	On local sales	On export sales
Tobacco or Alcohol related industry	Upto 2% of gross sales (net of taxes)	Upto 5% of gross sales(net of taxes)
Other industry	Up to 3% of gross sales (net of taxes)	Upto 6% of gross sales (net of taxes)

However, royalty or any fee against technology transfer agreement relating to starting the operation of an industry shall be as per the agreement between two parties.

Time limit for bringing FDI into Nepal

FDI approval amount	Minimum amount to be brought within 1 year of approval
Upto minimum threshold (i.e. NPR 20 million)	25% of approved amount
More than the threshold limit upto NPR 250 million	15% of approved amount
More than NPR 250 million upto 1000 million	10% of approved amount
More than NPR 1000 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 30 percent 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 as per the commitment while having approval, 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 (2021 CE), 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 will be:
Re-investment made in same industry	10% of existing threshold
Re-investment made in other industry	Equal to the existing threshold

VISA provisions

There are two categories of visas for foreign investors, namely business visa and residential visa.

Business VISA

Foreign Investor or his authorized representative and the family members of the foreign investor or his authorized representative shall be granted business visa if the investment has been maintained at the minimum threshold (i.e. NPR 20 Million). For those investors whose FDI was approved before the enactment of FITTA 2075 (2019 CE), the minimum threshold shall be as per the Act prevailing at the time of FDI approval.

In case the approved FDI amount is NPR 100 million or more and at least 25% of the same has already been brought, then business visa is provided to foreign investor or two authorized representatives and their family members.

Residential VISA

A Residential visa is provided to foreign investor or their authorized representative and their family members where the invested amount exceeds 1 million USD (or equivalent foreign currency) and at-least 50% of that amount remains in Nepal.

Industrial Enterprises Act 2076 (2020 CE)

Registration of an Industry

Industrial Enterprises Act (IEA) 2076 (2020 CE), which has replaced the Industrial Enterprises Act 2073 (2016 CE), is now the preeminent legislation guiding the registration, establishment, operation and regulation of industries in Nepal. The Act explicitly restricts establishment or operation of industry without registering it by fulfilling the procedure as provided in the Act.

The IEA 2076 (2020 CE) has decentralized the registration process by granting authority to provincial levels for registration, renewal and regulation of industries. However, the following industries are still to be regulated by the federal authority:

- Industries listed in Schedule-1 of the IEA 2076 (2020 CE)
- Industries established with Foreign Investment
- Industries based on subject matter stated in Schedule -5 of the Constitution of Nepal
- Industries having its working area in two or more provinces
- Industry providing educational consultancy services in relation to diplomatic affairs

However, the DOI, federal authority, shall continue to be responsible for registration, renewal and regulation until the provincial governments make necessary arrangements 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 be required to provide a Brief Environmental Report without going to IEE or EIA process.

Eliminating the concept branch industry, IEA 2076 (2020 CE) has introduced a new concept of unit industry. Any industry desirous of operating an industry at a different location from that of main industry can do so by registering a unit of the industry. IEA 2076 (2020 CE) 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.

CLASSIFICATION OF INDUSTRY ON THE BASIS OF FIXED ASSETS

Types of Industry	Criteria
Micro	<ul style="list-style-type: none"> i) Fixed assets(capital) worth not more than NPR 20 lakh (except for land & building); ii) Owner is involved in operation and management of industry; iii) Workforce of up to 9 people including the owner; iv) Annual turnover less than NPR 1 crore; and v) If such industry has used engines, equipment's or machines then energy consumed by such devices in the form of electricity or diesel or petrol or other crude oils is upto 20 Kilo watt. <p>Note: Industries specified in schedule-I (Industries Requiring Permission) of Industrial Enterprises Act shall not be micro industries.</p>
Cottage	<ul style="list-style-type: none"> i) Based on traditional skills and technology; ii) Labor intensive & specific skill or based on local raw materials & local technology, art & culture; iii) If engines, equipment's or machines are used, then power usage is upto 10 Kilo watt; iv) As stated in Schedule-2 of Industrial Enterprises Act.
Small Scale	Except those industry classified as Micro and Cottage industries and having Fixed assets (capital) Up to NPR 150,000,000 (One Hundred and Fifty Million).
Medium scale	Industry with fixed assets (capital) ranging from NPR 150,000,000 (One Hundred and Fifty Million) to NPR 500,000,000 (Five Hundred Million).
Large scale	Industry with fixed assets(capital) more than NPR 500,000,000 (Five Hundred Million).

CLASSIFICATION OF INDUSTRY BASED ON NATURE OF SERVICES OR OUTPUT

Classification based on Nature of Service or Output	<ul style="list-style-type: none"> a) Energy-based industries (including generation and distribution of power) b) Manufacturing industries c) Agro-forestry industries d) Mining industries e) Construction industries f) Tourism industries g) Telecommunication and Broadcasting industries h) Service industries
Energy based Industries	<ul style="list-style-type: none"> • Industry generating energy from water resources, wind, solar, coal, natural oil & fuel or gas, biomass & similar types of energy producing industry; energy transmission; energy distribution, etc., as referred in Schedule 3.
Manufacturing Industries	<ul style="list-style-type: none"> • Industries which produce goods by utilizing raw materials, semi-processed raw materials or un-used products.
Argo-forestry Industries	<ul style="list-style-type: none"> • The businesses of production or processing from raw materials based on agriculture and forests product as referred in Schedule 4.
Mining Industries	<ul style="list-style-type: none"> • The industry extracting and processing the metallic and non-metallic material.
Infrastructure Industries	<ul style="list-style-type: none"> • The enterprise that constructs and operated physical infrastructure as mentioned in Schedule 5 as Road, bridge, tunnel; ropeway, railway, tram, trolley-bus, cable car, monorail and sliding-car; airway and airport; conference center; waste management; water supply and distribution; irrigation; sport complex and stadium; parking place and parking house; export processing zone; cargo complex; sewage treatment plant; special economic zone; telephone tower, optical fiber network, satellite and satellite transmission center; house and housing complex; film city, film studio; business complex etc.

Tourism Industries	<ul style="list-style-type: none"> The industries related to Tourism industries as mentioned in Schedule 6 as Tourist house, motel, hotel, resort and restaurant; travel agency, tour operator, healing center, casino, massage and spa; adventure tourism; golf course, polo, pony trekking, hiking; village tourism, home-stay and ecological tourism; cultural, religious, conference and sports tourism; entertainment part; conservation; cruise service, water entertainment, boating service etc.
Information technology, Communication technology and information dissemination-based Industry	<ul style="list-style-type: none"> Industrial enterprise relating to information, knowledge and communication having used technology for information collection, processing and transmission as referred to in Schedule 7 as Information technology-based industry like technology park, IT park, biotech park, software development, computer and related services, data processing, cyber-café, digital mapping, BPO, data mining, cloud computing. Communication based industry like internet, telecommunication, teleport services, satellite establishment and operation, satellite transmission center, VSAT, broad band, optical network, satellite network Transmission based industry like FM radio, digital radio service, digital television, satellite television, cable television, IPTV and online services, Digital cable TV, network, Direct-to-home satellite services, MMDS Network, recording studio, printing media, entertainment services, etc
Service Industries	<ul style="list-style-type: none"> Industrial enterprises as mentioned in Schedule 8 as Workshop, printing press, professional research and development, management, engineering and design, legal, accounting, auditing teaching/training, educational and technical consultancy services, ginning and bailing business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, library and museum services, laboratory, air services, sports services, non-agro cold storage, house wiring and electrical fitting and maintenance, waste management services, cargo and courier services, advertising services, packaging and refilling services, foreign employment services, Wholesale and retail trading, operating Cinema hall and multiplex, e-commerce, Leasing, Repackaging, Service apartment, Food court, Catering, and Investment company, etc.

Compliance Requirement

Industries are required to submit/notify certain details/information to the authorities upon bringing industry into operation and within 6 months from the date of expiry of the fiscal year. A notification is also required to be given to the authorities when the industries stop their operation.

Approval Requirement

Approval of DOI is required for certain changes in the industry. For instance, approval required for-(a) extension of the time period for bringing the industry into operation, (b) transfer of location of the industry, and (c) liquidation of industry.

Further, approval from the Industry and Investment Promotion Board is also required for the registration of industry which are listed in Schedule -1 of the IEA, 2076 (2020 CE).

Fixed Capital of Industry

Fixed capital of an industry shall consist of the following assets:

- Construction or physical renovations made on land and underground, space, water or below water,
- Surface physical infrastructure (such as sewerage, internal road, drinking water, water supply system),
- Office of industry, factory building or warehouses,
- Residential building and equipment or system related to it,
- Machines, instruments and tools,
- Transport vehicles,
- Office tools and equipment of capital nature,
- Furniture, fixture and furnishing,
- Communication provisions and equipment,

Note:

The following expenses incurred before the establishment of industries or at various stages of construction phases shall be included in the valuation of fixed capital of industry:

- *Technical or supervision expenses to be capitalized,*
- *Pre-investment and pre-incorporation expenses,*
- *Interest expenses to be capitalized,*
- *Environment impact assessment and research cost to be included in the operation of the industry.*

Exemption or Concession on Taxation to Industry

Certain exemption or relaxation is granted on Income Tax, Value Added Tax and Custom Duty to industries registered under IEA 2076 (2020 CE).

Please refer the 'Taxation' part of "Doing Business in Nepal 2024" for details.

In addition to relaxation mentioned in 'Taxation' part above, following additional benefits and exemptions are provided to following industries.

- No fees or royalty pursuant to the existing laws shall be applicable in electricity produced by industry for its own consumption.
- Such industry willing to sell surplus electricity to any other industry, may sell so pursuant to existing laws in the rate agreed upon by both parties.
- Government of Nepal may provide additional exemptions and facilities to export based industries and prescribed industries established inside Special Economic Zone or inside Government or Private Industrial Estate by publishing notice in Nepal Gazette.
- Government of Nepal may provide additional exemptions and facilities by publishing a notice in Nepal Gazette to National Priority Industries or industry making optimum use of domestic raw materials, labor or skill or industries established by inventing new technology or goods inside Nepal upon recommendation of Industries and Investment Promotion Board.
- Industries operating under Foreign Investment may be given approval to import goods produced by the Parent Company located in foreign country for production, market development and promotion of new goods for a prescribed period under prescribed terms and conditions.

Other Highlights

- Industry may be granted permission to acquire land more than the limit prescribed in the existing laws related to land, if required.
- No industry shall be nationalized.
- Government shall provide, if necessary, industrial security to the industry.
- Industry can hire a foreign national for a maximum period of five years (may be extended for further seven years pursuant to notice published in Nepal Gazette dated 10th Aug 2023), 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 Department of Industry 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.
- Applicant obtaining permission from the Industry and Investment Promotion Board for registration of the industry as mentioned under Schedule-1, cannot sale or change ownership or otherwise transfer the title before operation of industry, commercial production or starting business. However, if the applicant dies before operation of industry, commercial production or starting business, then legal heir of the applicant will carry remaining work.

No Illegal Strikes Allowed

The Act restricts employees to carry out any strike which may affect the operation of an industry and its production. However, this provision does not restrict the employees to put their legitimate demands to the management peacefully and resolve them in a mutual consensus way based on the prevailing Labor laws.

One Stop Service Centre

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

Corporate Social Responsibility (CSR)

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 annual profit for CSR activities every year. The amount spent under CSR requirement can be deducted for the purpose of income tax. The plans and programs related to CSR shall be submitted within six months after the end of every financial year to the DOI. The formulated plans and programs for CSR shall be implemented in co-ordination with local authorities.

For non-compliance of the CSR provisions, fine shall be imposed equivalent to 1.5% of Net Profit every year. *(Additional fine equivalent to 0.5% of Net Profit for entities failing to comply for more than 1 year.)*

Industrial Enterprises Rules 2078

Reports to be submitted (Rule 13)

Industries are required to submit following reports (physically or through electronic medium) within 6 months from the end of each financial year to the Industry Registering Authority.

- Audit Report
- Tax Clearance Certificate of previous year
- Updated report of the industry as per Annexure 13 of the IE Rules 2078 (2022 CE)

Cooperatives are allowed to register Industry (Rule 14)

Following types of Cooperatives registered and operating as per prevailing law are allowed to register industry subject to the IEA 2076 (2020 CE), IE Rules 2078 (2022 CE) and the By-rules of the Cooperative.

- Producer Cooperatives,
- Consumer Cooperatives,
- Labor Cooperatives, or
- Multipurpose Cooperatives

However, Financial Cooperatives carrying on saving and Credit transactions are not allowed to register industry.

Public Private Partnership and Investment Act 2075 (2019 CE)

Infrastructures Covered Under the Act

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

Investment Approval

Investment above NPR 6 billion shall be approved by Investment Board of Nepal, whereas investments up to NPR 6 billion are approved by the DOI. For the purpose of implementing a project, the authorities responsible are:

- a. Concerned Local Level Government: For projects within the jurisdiction of local level government.
- b. Concerned Province Government: For projects within the jurisdiction of province government.
- c. Concerned Ministry of GON: For projects except hydroelectric projects with cost upto NPR 6 billion and for hydroelectric projects having capacity up to 200 MW.
- d. Investment Board: For project except hydroelectric project above NPR 6 billion and for hydroelectric project which has capacity beyond 200 MW.

Forms of Public Private Investment

The public private investments can take any of the following forms:

Build and Transfer (BT); Build, Operate and Transfer (BOT); Build, Own, Operation and Transfer (BOOT); Build, Transfer and Operation (BTO); Lease, Operation and Transfer (LOT); Lease, Build, Operation and Transfer (LBOT); Development, Operation and Transfer (DOT); Management, Operation and Transfer (MOT); Rehabilitation, Operation and Transfer (ROT).

Process of granting License

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

1. The appropriate authority (Investment Board, Nepal Government, State Government or Local Government) will short list the projects in which a PPP is sought.
2. The list of projects will be published inviting an EOI for the research and study of the project.
3. Alternatively, any entity desirous of implementing a project which it has identified, may submit their EOI directly to the appropriate authority without any public notice. In such case the appropriate authority may either directly award the license to carry out detailed study to the applicant or call for competitive bidding if the bidding option seems more rational.

4. EOI should be furnished with all the required details within the stipulated time stated in the Notice.
5. The appropriate authority will short list the potential candidates, and will invite proposals from them.
6. The appropriate authority, after evaluating the technical proposal, the proposed royalty, and the financial proposal (including details of tariffs to customers), will select the best candidate.
7. The appropriate authority will grant a license to carry out the detailed study of the project and will obtain a performance bond from the selected entity.
8. The entity enters into a PPP agreement with the respective authority. Such an agreement includes the details of project, the commencement and completion date, the facilities and the exemptions, the license period, milestones, a timetable, technical standards and quality, the conditions to transfer the project to the appropriate authority, royalties, etc.

Project Implementation through direct negotiation

Where a suitable proponent could not be selected even after notice for at least two times then the concerned authority may cause the project implemented through direct negotiation. Further, any project, which deemed appropriate, to be implemented through direct negotiations for any of the following reasons, may also be implemented through direct negotiation.

- no possibility of competition owing to nature or cost of the project,
- having new concept or technology involved,
- to be implemented on national priority basis,
- it is not appropriate for the project to adopt the complete process.

Companies Act 2063 (2007 CE)

Service restriction

To carry out following business a company must be registered as public company. Public company shall mean a company having paid up capital of not less than NPR 10 million and at least seven promoters.

- Banking
- Insurance
- Financial services

- Business relating to securities (stock) market
- Retirement Fund
- Mutual Fund
- Telecommunication service (if paid up capital exceeds NPR 50 million)

Issue of shares in premium

Listed companies can issue shares at premium as per the prevailing Security laws. Private companies can issue shares at a premium if decided by its General meeting provided the company has positive net-worth.

Share premium shall be used for only following purpose:

- Issue of bonus shares
- Payment of Premium on redemption of redeemable preference shares
- Writing off the preliminary expenses
- Reimbursement of the commission paid or discount allowed on issue of shares.

Issue of different class of shares

Registered companies can issue different classes of shares with different rights by making suitable provision in Articles and Memorandum of Association including Preference and Ordinary shares as general practiced.

Restriction on transfer of shares

If a private company is enjoying Loan facility from any company, then its promoters cannot sale/transfer/mortgage their shares unless all their shares have been fully paid and first annual general meeting of the company has been held.

Buyback of shares

A company shall not buy back its own shares or lend money against security of its own shares.

However, Company can buy back its own shares out of its free reserves available for distribution as dividend by giving information to the OCR, if following conditions are satisfied

- Shares issued are fully paid up.
- Buy-back is authorized by the Articles of Association.

- Special resolution has been adopted at the general meeting authorizing the buyback.
- After buyback, Debt (both secured and unsecured) of the company will not be more than double of its capital and general reserves.
- Value of shares to be bought back is not more than 20% of its paid up capital and general reserves.
- Buyback is not in contravention of any directives issued by OCR.

After adoption of special resolution to buy back of shares, a company can buy back its shares in any of the following manner within 12 months.

- Purchase shares from stock exchange.
- Purchase from employees who are allotted shares.
- From existing shareholders on proportionate basis.

Details of bought back shares shall be submitted to OCR within 30 days. A sum equal to the marked price of bought back shares shall be transferred to Capital Redemption reserve fund and the amount of such fund shall be maintained as paid up Capital. The Company shall cancel the shares bought back within 120 days from the date of such buy-back.

Once a company buys back any class of shares, it shall not reissue the shares of that class, except for the issue of bonus shares or payment of its liability prior to the expiration of two years after such buyback.

Prohibition on certain acts

The BOD of a company enjoying loan facilities from banking and financial institutions shall not do following acts unless authorized by special resolution in general meeting.

- Sale/donate/gift/lease/or otherwise dispose of more than 70% of one or more undertakings being operated by it,
- Take loan (except credit facilities for a term not exceeding 6 months) where the loan amount exceeds the company's paid up capital and free reserves.
- Make a contribution, donation or a gift (except for employees' welfare or business promotion) of a sum exceeding NPR 100,000 in one financial year or 1% of the average net profits of the company during the last three financial years whichever is lesser.

Special provision for single shareholder company

Unless otherwise provided in the articles, all acts and decisions required to be done/made by the BOD or general meeting shall be as decided in writing by the single shareholder and no meeting of BOD or general meeting shall be required to be called. In practice, the single man companies are operating based on the shareholder's decision without BOD and AGMs.

Provisions Relating to Foreign Companies

A foreign company shall not carry any business transaction in Nepal without registering a branch office in OCR.

A foreign company shall not establish a liaison office in Nepal without registering such office in OCR. A foreign company registered as liaison office cannot do any income earning activities in Nepal.

If a foreign company has made investment in shares of a Nepalese company or provided loan to a Nepalese company or participated in the operation and management of a Nepalese company, then it shall not be treated as carrying business transaction in Nepal for above mentioned purpose.

A foreign company registered as branch office in Nepal can carry only the same type of business or transaction as is being carried on by it in the country where its registered office is situated or where it has been incorporated.

Foreign company shall keep books of accounts and prepare financial statements as prescribed.

Restriction on certain transactions between companies

No company shall:

- Lend money to another company or
- Give guarantee for loan taken by another company or
- Make investment in the securities of another company in excess of an amount that is 60% of paid up capital and free reserves or 100% of free reserves whichever is higher.

However, this restriction does not apply to:

- Bank and FIs,
- Insurance,

- Company with main objective to buy and sale securities or only make investment,
- Private company with no loan from Bank and FIs,
- Company providing Infrastructure facility,
- Holding company making investment in its wholly owned subsidiary,
- Loan /Guarantee given by Holding company to its wholly owned subsidiary,
- Investment made in right shares.

Company Secretary

A company with paid up capital NPR 10 million or more shall appoint a company secretary.

Member of board of directors of a company could not be appointed as Company secretary of same company.

No person shall be appointed as Company secretary in more than one company. However, Company secretary of a holding company can be appointed in subsidiary company also.

Requirement of Accounting, Book keeping and Reporting

Nepalese Companies Act requires every company to maintain books of accounts according to the double entry system of accounting in consonance with the prevailing accounting/reporting standards. Companies are required to prepare financial statements and get it audited within six months of the end of financial year. Nepalese financial year starts on Shrawan 1st (Mid July) and ends in Ashadh end (Mid July) of next year.

Nepalese companies are required to prepare their financial statements as per Nepalese Financial Reporting Standard (NFRS), which is very close to IFRS.

Minutes of AGM along with audited financial statements and a number of other periodic reports are required to be submitted to the Company Registrar's Office, non-compliance of which will attract penal charges.

Labor Act 2074 (2017CE)

Applicability

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

The Act is not applicable to: Civil service; Nepal army; Nepal Police; Armed Police Force; National Investigation; Entities incorporated under other prevailing laws or situated in Special Economic Zones (SEZ) to the extent separate provisions are provided, working journalists, unless specially provided in the Contract.

Employment

Employer can appoint worker/employee for a regular/work based/time bound/Casual/Part-time employment by entering into a contract. Also, employer can hire interns accepting agreement with Educational institution and Trainees as required.

- Regular Persons hired for work or services other than work based, time bound, casual, or piece rate employment.
- Work Based Persons hired for rendering a specific service.
- Time Bound Persons hired for rendering services for a definite time period.
- Casual Persons hired for seven days or less in a month.
- Part-time Persons hired for 35 hours or less in a week.

Labor Act also provides provisions for Outsourcing of certain manual works such as security personnel, drivers, cleaning staffs, messengers, etc.

A maximum of 6 months' probation period is allowed.

Foreign employee

Foreign National cannot be appointed as an employee without obtaining permission from the Labor Department. Prior to engaging a foreign national

in work, the entity must publish an advertisement in national level Daily Newspaper to fulfill the vacant posts by Nepali citizens. If no application is submitted by Nepali citizen, or no local skilled person is available for any work even after the vacancy announcement, foreign national can be hired for the work, by obtaining the approval of Labor Department.

However, in following cases, labor department can give permission to foreign nationals by keeping a record:

- Where the entity is formed /operated under a foreign investment or foreign aid, then CEO of such entity and employees in specified numbers as prescribed.
- Any technical person coming to Nepal for Machinery repair/installation or similar casual work may be provided work permit simply by recording in the Labor Department for a period not exceeding 3 months.

Working Hours for employee/workers

The working hours for any employee/worker shall not exceed 8 hours per day and 48 hours per week. However, overtime is allowed not exceeding 4 hours per day and 24 hours per week. For the overtime, employee shall be paid at the rate of 1.5 times the normal basic remuneration. Employer shall arrange the transportation facility if employee is required to come or leave office before sunrise or after sunset.

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.

Remuneration to employees

Employer shall provide remuneration to employee from the first day of employment.

Employee shall get annual salary increment (grade) after completion of each year of service period at a rate of half day's basic remuneration.

Minimum remuneration prescribed by the Government pursuant to the notice published in Nepal Gazette dated 17th Aug 2023 is as below: (Separate rate for Tea States)

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

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).

GRATUITY

- Rate: 8.33% of basic remuneration.
- Time of Allocation: Every month (time of payment of remuneration).
- Eligibility: Since the first day of employment.
- Deposited in: Social Security Fund (Previously deposited in approved fund, or paid in cash along with remuneration).

LEAVE ENCASHMENT

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

Leave of employee

Employee shall get paid leave as below

- Weekly leave of 1 day per week.
- 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 encashed every year.

Other Benefits

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

Contribution Based Social Security Act 2074 (2017 CE)

Contribution to the Fund

Employers are required to be listed in the Social Security Fund within the time prescribed by the government. A listed employer shall regularly deposit contributions to the Fund as specified on a monthly basis (unless otherwise specified or where a full month's contribution is not required) beginning from the day of listing of an employee until their last day of employment. Contributions shall be deposited to the Fund within 15 days from the end of the month.

Delay in Deposit of Contribution by the Employers

Interest at the rate of 10%, in addition to the amount of the contribution, shall be charged by the Fund for failure to deposit the contribution within 15 days from the month end. A listed employer can, within 30 days following the due date for depositing the contribution, file an application in writing specifying the reasons and the basis of the occurrence of the uncontrollable event, resulting in the delay. If the explanation so provided is considered reasonable, the Fund shall provide a full, or partial, waiver of the interest amount and permit the deposit with or without interest.

Failure to Deposit the Contribution

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

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

Contribution by Employer on behalf of Employees

Where, for any reason, the related employee is not entitled to a salary and fails to deposit his/her contribution into the fund on a regular basis, in such case, the listed employer should contribute to the fund on behalf of the employee, for a maximum period of 3 months,.

Entitlement in Social Security Program

A contributor to the fund is entitled to receive all benefits as prescribed under the Contribution Based Social Security Act 2074 (2017 CE) (and in the social security program rules) on a proportionate basis of contribution and for period as specified in the fund.

Contribution to Social Security Fund (SSF)

A total of 31% of the basic pay of an employee should be contributed to the SSF. The contribution ratio between the employer and employee shall be as follows:

Schemes	Contribution by Employer	Contribution by Employee	Total Contribution
Provident Fund	10%	10%	20%
Gratuity	8.33%	-	8.33%
Social Security Fees	-	1%	1%
Accident and Disability Protection Scheme	1.4%	-	1.4%
Dependent Family Protection Scheme	0.27%	-	0.27%
Total	20%	11%	31%

Bonus Act 2030 (1974 CE)

Bonus Provision

Every profit-making enterprise shall make provision of bonus equal to 10 % of its net annual income after giving bonus for the financial year.

In case of government owned enterprises, the rate of bonus and other conditions shall be as decided by the Nepal Government.

Conditions for Bonus

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.

Bonus shall be deducted for the period of illegal strikes proportionately.

Limit of Bonus amount

Employee shall not get bonus in excess of:

- Amount equivalent to 8 months' remuneration/wages if the monthly remuneration/wages is up to 2 times of the minimum remuneration fixed by the Government of Nepal.
- Amount equivalent to 6 months' remuneration/wages if the monthly remuneration/wages is more than 2 times of the minimum remuneration fixed by the Government of Nepal.

Distribution of Bonus

Bonus under this Act shall be distributed:

- Only in cash,
- Within 8 months from the end of the financial year, the period may be extended for 3 months by the Labor Department.

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.

Abbreviations

ADB	Asian Development Bank
AGM	Annual General Meeting
AIB	Asian Infrastructure Investment Bank
BIPPA	Bilateral Investment Promotion and Protection Agreement
BOOT	Built Own Operate and Transfer
BPO	Business Process Outsourcing
BRI	Belt and Road Initiative
BRT	Bus-Rapid Transport
CEO	Chief Executive Officer
CIB	Credit Information Bureau
CSR	Corporate Social Responsibility
DG	Director General
DOI	Department of Industries
EPR	Environment Protection Rules
FCC	Financial Credibility Certificate
FDI	Foreign Direct Investment
FITTA	Foreign Investment and Technology Transfer Act
GDP	Gross Domestic Product
GNI	Gross National Income
IBN	Investment Board of Nepal
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IRD	Inland Revenue Department
JVA	Joint Venture Agreement
LDC	Least Developed Country
MIGA	Multiple Investment Guarantee Agreement
NFRS	Nepal Financial Reporting Standards
NPR	Nepalese Rupees
NRB	Nepal Rastra Bank (Central Bank of Nepal)
OCR	Office of Company Registrar
PAN	Permanent Account Number
PCA	Post Clearance Audit
PTA	Power Trade Agreement
ROI	Return on Income
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SEZ	Special Economic Zone
SPA	Share Purchase Agreement
USD	United States Dollar
VAT	Value Added Tax
WDV	Written Down Value
WTO	World Trade Organization

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- *Acts/Rules of Government of Nepal*
- *NRB Directives / Circulars*
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