



**DOING
BUSINESS
IN NEPAL
2019**





ABOUT REANDA BIZ SERVE

- A limited liability company registered under the Companies Act of Nepal.
- Leading Professional Advisory firm that offers Business Advisory and Consulting services.
- Energetic and multidisciplinary team headed by dynamic leadership to consistently ensure efficient results with the highest standards of reliability, inclusiveness and transparency.
- Advisory services underpinned by its vision to be a strategic partner to its clients ensuring best value to them.
- Committed to ethics, transparency and accountability
- A network firm of Reanda International.
- Separate wings for Legal & Compliance and Information Systems Security related services in the form of Biz Serve Legal and Biz Serve IT.

ABOUT REANDA INTERNATIONAL

Reanda Biz Serve is a network firm of Reanda International. Reanda International is an international network of independent accounting and consulting firms, the China's first professional accounting network to collaborate with independent member firms from overseas countries and regions. Under the dynamic leadership of Reanda China, this network has made significant development and is already a leading international network of independent accounting and consulting firms in Asia, and one of the fastest growing networks globally.

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WHY NEPAL ?

Country Profile

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 70 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 147,181 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 Fact Sheet

Location:	26°22' North to 30°27' North and 80°4' East to 88°12' East
Time zone:	GMT + 5:45
Area:	147,181 Square KM
Altitude:	70 to 8,848 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: -	- 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

Currency:	Nepalese Rupee (NPR)
Economy:	Open
Judiciary power:	Supreme Court of Nepal
Official language:	Nepali (English is widely used in business and profession)
Population:	29 million
Sex ratio:	95 (male per hundred female)

Economic Indicators of Nepal

Particulars	2013/14	2014/15	2015/16	2016/17	2017/18*
Population (million)	27.6	28	28.3	28.7	29.1
GDP (billion NPR, at current price)	1,965	2,130	2,253	2,642	3,007
GDP (at current price) growth rate (%)	15.9	8.4	5.8	17.3	13.8
GDP per Capita (USD)	725	766	748	866	1,004
GDP (At basic prices) (NPR Billion)	674	694	695	747	791
GNI per Capita (USD)	737	778	759	877	1012
Consumer Price Index (CPI) (%)	9.1	7.2	9.9	4.5	6.0
FDI net inflows (million USD)	30.4	51.9	55.8		
Remittance Income (In Billion NPR)	543	617	665	695	730
USD NPR Exchange Rate (Period Avg)	98.3	99.5	106.4	106.2	104.1

Source: Economic Survey, GoN Fiscal Year 2017/18

*Based on first 8 months of 2017/18

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 of 29 million, about 60% are of working age i.e.15-65 years). Nepal has relatively low cost of labor.
- Nepal is ranked 110th in the “Ease of Doing Business Report 2018” 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.
- 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. Similarly, Nepal has signed Double Taxation Avoidance Agreement with Austria, 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;
 - Maximum income tax rate of 25% and value added tax (VAT) of 13%;
 - Income tax concession on profits from exports and interest income on foreign loans;
 - 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 66 types of garment items for 10 years starting from 2016.

Socio-Political and Economic Environment

After the devastating earthquake in 2015, followed by a trade blockade with major investor India and political unrest, Foreign Direct Investments (FDI's) commitments in Nepal dropped to an almost all-time low. Now, three years later, due to increased stability, reforms and initiatives such as the Nepal Investment Summit in March, 2017 FDIs in Nepal are on the rise again.

One of Nepal's great strategic economic advantages is its close proximity to some of the largest and fastest growing economies in the world. Looking just at the three major Indian provinces that border Nepal, the combined population – and potential market – adds up to almost 400 million. Despite being close to huge potential markets, Nepal has not been able to take advantage of it, resulting in disappointing economic growth rates compared to other South Asian countries.

For landlocked countries such as Nepal, cross-border trade is important. In order to increase Nepal's trade between neighboring countries India and China, numerous steps have been taken to improve its connectivity. Both India and Nepal have several joint road projects along the border. Last year, the Nepal Government has prioritized construction, expansion and blacktopping of four road sections that link Nepal with the Chinese border. And more recently, Nepal has signed an agreement with China to build a \$8 billion cross-border rail link.

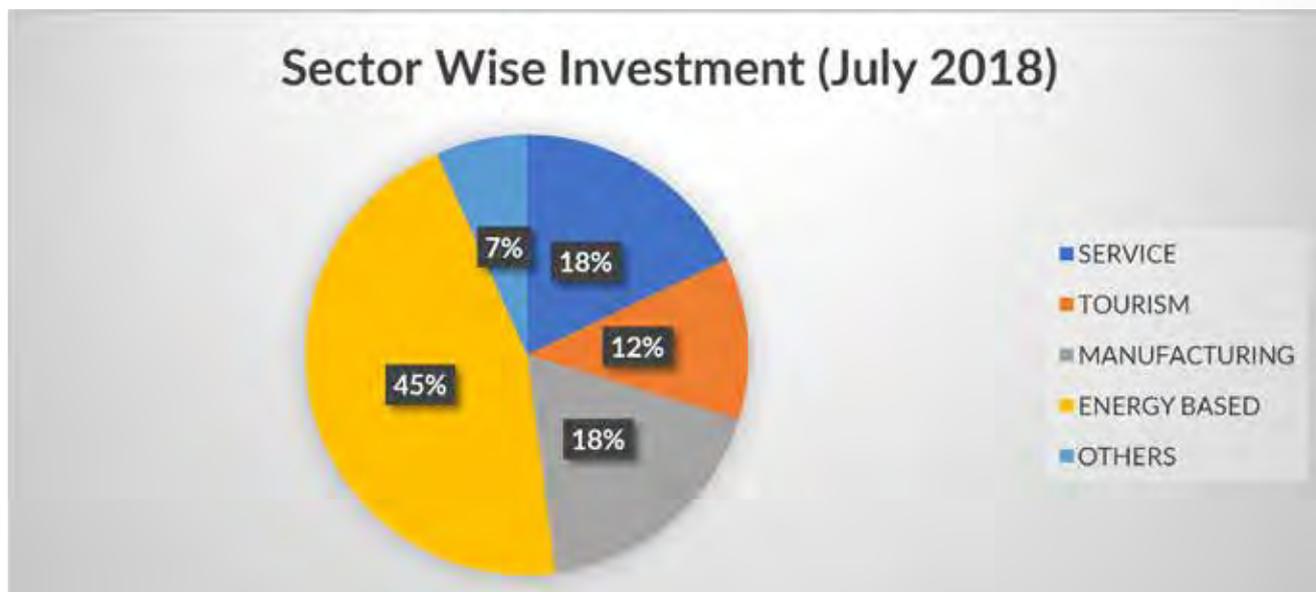
In addition to the investments in infrastructure, Nepal government has also started a new and long due round of policy reforms. Among these reforms are a new labour law, the Industrial Enterprise Act, the Special Economic Zone Act, the Agribusiness Promotion Bill and most importantly for foreign investors – the Foreign Investment Bill and amended Companies Act.

All these changes will hopefully help Nepal live up with its potential and its ambitious aim to graduate from Least Developed Country status by 2022. For those who've been waiting to see how the wind would blow after the earthquake, now is the time to look ahead towards the bright future and jump on the bandwagon to do business in Nepal!

Foreign Investment Status

Total No. of industries receiving FDI
Total Investment in the form of FDI

4580
NPR 272.68 Billion (July 2018)



Potential Areas/Sectors for Investment

Energy

- Rich in water resources with multiple sources of water, including glaciers, snowmelt 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.
- Installed capacity is around 1,000 MW of electricity, despite the fact that peak domestic demand (suppressed) is well over 1,500 MW. Demand for electricity is increasing at 7–9% per year.
- To meet the target of graduating from least developed country (LDC) status to developing country status by 2022 and become a middle income country by 2030, 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.

Status of Production Licenses Distribution (March 2018)

Type	Number	Total capacity (MW)
Running Projects with Production Certificates	84	973.8
Under construction Projects with Production Certificates	168	4,620.1
Application pending for Production Licenses	35	3,451.7
Survey License Issued	288	14,370.5
Application pending for Survey Licenses	16	1,531.5
Total	591	24,947.6

Source: Economic Survey, GoN Fiscal Year 2017/18

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).
- Plans to upgrade the current international airport are underway, which will increase the tourist traffic significantly.

Infrastructure

- Only about 19% of roads in Nepal are all weather roads and 2 districts are still not connected by roads.
- Opportunities to expand the road network in PPP models.
- 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.
- 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, which accounted for about 32% of GDP and absorbs about two-thirds of the labor market.
- 25% of the total land area is cultivable land; another 33% comprised of forest land and the rest is mountains.
- 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/essential oils 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 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 governmental agencies and the private sector.

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.
- Every year, thousands of students go abroad for further studies spending large sums of money. With more and better education institutions within country, this could be avoided.
- Government is looking to develop health infrastructure, including modernization and 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 presenting opportunities for manufacturers of pharmaceutical goods.

Financial Sector

- Although the financial sector is growing at a rapid pace, still about 60% of Nepal's population has no bank accounts and about 61% are served by formal financial institutions.
- Banking services are heavily concentrated in urban areas where 56% of the adults use banking products as compared to 36% in rural areas.
- Financial sector of Nepal still has a large untapped market for banking and financial services.
- Nepal's Insurance market has also huge potential as the penetration rate is just about 10 %.

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, aqua- marine, ruby and sapphire).
- Recent studies have shown that Nepal may have 2.5 billion metric tons of cement grade limestone.
- 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.

No Foreign investment allowed in following areas

Generally, the laws of Nepal do not discriminate between foreign shareholders and domestic shareholders. However, there are certain sectors in Nepal where foreign investment is restricted. The restricted sectors are:

- Household and cottage industries (including traditional industries)
- Personal service businesses such as barber shop, beauty parlours, tailoring, driving training
- Arms and ammunition industry
- Explosives and gunpowder
- Radioactive elements related industries
- Buying and selling of land and houses (except construction businesses)
- Movies, films of Nepali language
- Security printing
- Currency and coins businesses
- Retail businesses with operations in less than three countries
- Beedi (traditional cigarette) industry (except industries that export more than 90%)
- Internal courier service
- Atomic energy
- Poultry
- Fisheries
- Bee Keeping

In addition, there are certain sectors where foreign investment is restricted to certain percentage as set below:

- Advisory and consultancy business other than legal, accounting, engineering, management (maximum 51% of foreign shareholding)
- Airlines Industry (49% to 95% of foreign shareholding)
- Financial Services/Banks and Finance Companies (20% to 85% of foreign shareholding)
- Telecommunication (maximum 80% of foreign shareholding)
- Media (maximum 25% foreign shareholding)

However, technology transfer (franchising, technology licensing, management, trademark licensing etc.) and loans are allowed in all the industrial sectors including those for which equity investment is not allowed.

DOING BUSINESS IN NEPAL 2019

A graphic illustration featuring several silhouettes of business professionals in suits, some standing and some gesturing as if in a meeting. They are positioned on a horizontal line. Behind them are several large, light blue upward-pointing arrows of varying heights, symbolizing growth and progress. The background is a light, pale blue gradient.

HOW TO INVEST IN NEPAL?

Mode of Investment in Nepal

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

1. Establishing a new industry either with 100% foreign equity or as a joint venture with Nepalese or other foreign investors
2. Investing in shares (equity) of an existing industry
3. Reinvestment of the earnings derived from earlier investment
4. Investment made in the form of loans or loan facilities, and
5. Engaging in technology transfer in an existing industry
6. Investment with Machine and Equipment as a part of Equity

Note: Investment can be made either in cash or in the form of tangible / intangible assets, e.g. machinery and equipment.

Approving Authority for Foreign Investment

Project size

Below NPR 2 billion

NPR 2 billion to less than 10 billion

NPR 10 billion or more

Approving Authority

Director General of Department of Industry

Industrial and Investment Promotion Board

Investment Board of Nepal

Starting a business in Nepal by establishing a new industry

Procedure for establishing industry with projects of less than 10 billion NPR

Projects of less than 10 billion NPR	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 DG or Investment Promotion Board as the case may be.
	4. Issuance of foreign investment approval letter by DOI.
	5. Incorporation of a Company with Office of Company Registrar by making application with required documents and payment of registration fee
Expected Duration: 1 Month	6. PAN registration with Inland Revenue Department (IRD), change in PAN if required.
	7. Opening of Bank Accounts
	8. Application to Central Bank (NRB) for principle approval to bring FDI into Nepal.
	9. Industry Registration at Department of Industries
	10. Inflow of FDI and Application to NRB to Log the capital brought in the form of FDI
	11. Environmental Assessment as per EPR if required under law.
	12. Application for business license from concerned regulating authorities as applicable.
	13. Commissioning of Industry

Documents required for establishing a new industry with projects of less than 10 billion NPR

At DOI for FDI approval

- Project Report / Feasibility Report in two copies
- Duly filled up online application form
- Joint Venture Agreement (JVA), in case of more than one investor
- Notarized citizenship certificate of local investor or Certificate of Incorporation, including Memorandum of Association and Articles of Association, shareholders register, tax clearance certificate if the local investor is a company
- Notarized copy of passport of foreign investor or notarized certificate of Incorporation, including Memorandum of Association and Articles of Association if the investor is a company
- Notarized Board minute of foreign investor (company) to invest in Nepal
- Bio-data of the foreign investor
- Company Profile of the foreign company if investor is a foreign company
- Financial Credibility Certificate (FCC) of the Foreign Investor provided by a home country bank or domiciled country bank
- Board Minute of the concerned Local or Foreign companies regarding investment or JV
- Authority letter from the concerned companies or individuals to carry out any necessary work on their behalf, if applicable

At Company Registrar Office for company registration

- Online Application to obtain approval for Proposed Name of the company
- Application in prescribed format along with Approved Name of the company, Articles of Association and Memorandum of Association (two sets),
- Unanimous agreement between promoters, if any
- Promoters minute to register a company, if applicable
- FDI approval letter and JV if applicable from DOI
- Notarized copies of citizenships of local shareholders
- Notarized copy of passport of foreign party or Notarized Certificate of Incorporation, including Memorandum of Association and Articles of Association if the party is a company

At IRD for PAN registration

- Board minute for registration
- Form dully filled up
- Copies of company registration certificate
- Copies of Articles and Memorandum of Association
- Copy of rental agreement (office) with TDS deposit slip
- Stamp of the company

At NRB for FDI approval

- FDI approval letter from DOI
- Notarized Company Registration certificate of foreign company and copy of the same from Local company as applicable
- Notarized Articles and Memorandum of Association of foreign company and copy of the same from Local company as applicable
- Notarized copy of citizenship of local investor and notarized copy of passport of foreign investor or their authorized representative
- Tax registration certificate of Local company
- Copy of Industry Registration of Local company
- Commitment letter from Foreign investor, for not taking back the investment for 1 year
- Bank Statement of foreign bank of investor and proof of the Source of investment
- If Money is not coming at once then should submit the investment schedule starting with minimum NPR 5 million.
- Audit report of the Foreign Company as applicable (if more than one year of operation)
- Credit Information Bureau (CIB) report for not being black listed for Local Company

At DOI for Industry Registration

- Dully online filled up form
- Copies of Company registration, Tax registration, FDI approval, Articles and Memorandum of Association
- Copies of the documents of the Foreign investor as required

Procedure for establishing industry with Projects of 10 billion NPR or more

Projects of 10 billion NPR or more	1. Project Identification
	2. Initial consultations at Investment Board of Nepal (IBN).
	3. Application for foreign investment approval at IBN including all required documents..
	4. Approval of foreign investment by Investment Board. (Board may approve by direct negotiation if there are no other applicants or the project cost is 20 billion or more.)
	5. Issuance of foreign investment approval letter by Investment Board.
	6. Incorporation of a Nepalese Company at Office of Company Registrar by making application with required documents and paying required fee.
Expected Duration : 3 Month	7. Income Tax/VAT registration at Inland Revenue Department (IRD) and opening of Bank Account.
	8. Application to NRB for approval to bring FDI into Nepal
	9. Industry Registration at Department of Industry
	10. Inflow of FDI and application to NRB to log the capital brought in the form of FDI
	11. Environmental Assessment as per EPR (Environment Protection Rules), if required under law.
	12. Application for business license from concerned regulating authorities.
	13. PDA/PIA negotiations.
	14. Commissioning of Industry

Documents required for establishing a new industry with projects of NPR 10 billion or more

Documents Required at IBN

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

Documents required at Company Registrar Office, NRB, IRD, DOI are more or less similar as explained above (in case of projects of less than 10 billion NPR).

Starting a business in Nepal by investing in an existing industry

Procedure for investing in an existing Industry in Nepal

Investment in existing Industry	1. Industry 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 DG or Investment Promotion Board as the case may be based on the amount of the investment.
Expected Duration : 20 Days	4. Issuance of foreign investment approval letter by DOI.
	5. Approval of Nepal Rastra Bank to bring FDI into Nepal.
	6. Invest in the existing Nepalese company by share transfer or further issue of shares; or invest in the form of loan to the Nepalese company.
	7. Industry Registration with Department of Industries or change of the structure of industry from Cottage and Small industry office to DOI.
	8. Certification of investor as new shareholder of the company from OCR

Documents required for investing in an existing industry

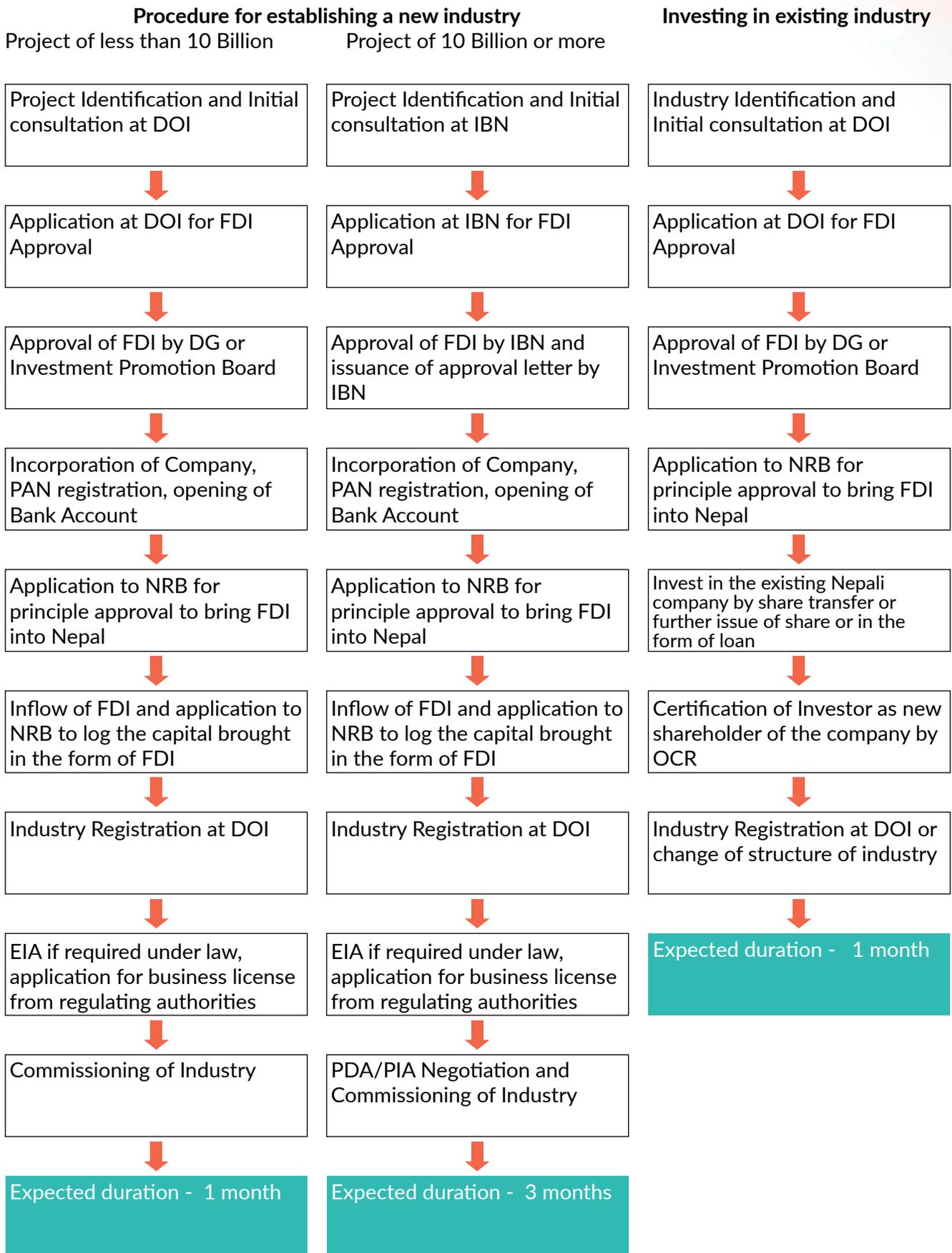
At DOI

- Proposed Business Plan and Shareholding Structure
- Request from the Investor
- Request from the Seller
- Share Purchase Agreement (2 copies)
- Copy of minutes of the Board meeting of local company regarding inclusion of foreign investor into the company
- Copy of minutes of Board meeting, Certificate of Incorporation and company profile of the foreign party if the party is a company
- Notarized copy of passport and Bio-data of foreign investor, if investor is an individual
- Copy of the Company Profile and Passport of the Authorized Representative if investor is a company
- Financial Credibility Certificate of the Foreign Investor provided by a bank
- Current Share Holders' List as certified by the Company Registrar's Office
- Latest Auditor's Report
- Tax registration and Tax clearance certificate of local company
- Authority letter(s) from the companies concerned to sign on behalf of the companies

At NRB for FDI approval

- FDI approval letter from DOI
- Company Registration certificate
- Articles and Memorandum of the company
- Tax registration certificate and Tax clearance certificate
- Credit Information Bureau (CIB) report for not being black listed for Local Company
- Financial Credibility Certificate of the Foreign Investor provided by the bank
- Payment Schedule if the investment is coming in phases/tranches with minimum NPR 5 million of 1st instalment.
- Notarized Passport copy of Investor or Passport of the Authorized Representative if investor is a company
- Registration documents of the investor, if investor is a company
- Audit Report of the foreign company if investor is a company
- Letter of Commitment from Foreign investor
- Letter of declaration of source of investment from Foreign investor

Process Flow for Starting a business in Nepal



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

Foreign companies shall not carry on 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 activity 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 & 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.

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A background illustration featuring several silhouettes of business professionals in suits, some standing and some gesturing as if in a meeting. These figures are positioned on a series of light blue, upward-pointing arrows of varying heights. The overall theme is business growth and progress.

HOW TO REPATRIATE?

Repatriation by Foreign Investor

Procedure for repatriation of Investment / Return

- Apply to DOI for recommendation to NRB for repatriation
- Get recommendation letter from DOI
- Apply to NRB for final approval for Repatriation
- After getting approval from NRB, repatriate the sale proceed/loan/income as the case may be



Recommendation of Repatriation from DOI

Repatriation on Sale of Shares

For the repatriation of the sale of shares of the foreign investor, he/she or the concerned company must apply to the Department of Industry for recommendation to the central bank with the following documents.

- Proof of investment made and number of shares owned, (the proof of investment could be a certificate from the commercial bank through which the investment was brought into Nepal for old companies). Endorsement letter of the NRB for the Foreign Investment is required for the recent established companies within 5 years.
- Letter from the company stating the completion of the transfer of the related shares duly certified by the Company Registrar's Office or such competent body.

- Prior approval of DOI, if the share was transferred to any foreign national.
- Tax clearance certificate
- Custom declaration form and the approval letter if the investment was made in the form of plant, machinery and equipment.
- Copy of the Board of Director's resolution.
- Proof of payment of capital gain tax in concerned tax office , if applicable.

Repatriation of Dividend

Any foreign investor wishing to repatriate his dividend from his investment as per the FITTA 1992 has to obtain a recommendation from the DOI. The foreign investor or the company has to apply to the DOI with the following documents:

- Documentary proof of investment made which is issued by the commercial bank. This document is needed only for the first time and again only when further investment is made by the investor
- Custom declaration certificate of the import of plant machinery and equipment if the investment by the foreign investor has been made in the form of capital equipment,
- Auditor's report including balance sheet and profit and loss account
- Decision of the BOD and AGM for the dividend allocation / approval
- Latest Tax clearance certificate of the company.
- Proof of payment of required tax in the concerned tax office.

Repatriation of Loan and Interest

The industrial unit with foreign loan has to apply to the DOI for sending out the principal and interest on foreign loan obtained with the approval of DOI along with the following documents:

- Certificate from the commercial bank regarding the transfer of the loan amount into Nepal
- Custom declaration certificate and invoice of the plant machinery if the loan was obtained in the form of machinery
- Letter of approval of the loan agreement
- Latest Tax clearance certificate of the company
- Proof of payment of required tax in the concerned tax office

Repatriation of Technology Transfer Fees

The industrial unit with approved technology transfer agreement, trademark license agreement, management agreement, technical assistance agreement can apply to the DOI for the transfer of fees as per the agreement. The company has to submit the calculation of the amount due to the foreign technology supplier certified by the auditor along with the certificate of payment of income tax on royalty as per the prevailing tax rate.

Approval of Repatriation from NRB

Repatriation of Dividends

The following documents are required to be submitted to NRB along with application for approval of repatriation.

- Recommendation letter from DOI

- Approval of FDI taken from DOI/IBN
- Approval from NRB to bring the foreign currency into Nepal
- Bank Statement showing inflow of foreign currency into Nepal along with the Endorsement letter of NRB for the foreign investment done.
- Registration documents, PAN certificate, Articles and Memorandum
- Audited financial statements and annual report
- Custom declaration certificate and invoice of the plant machinery if the FDI was obtained in the form of machinery
- Latest Tax clearance certificate / TDS deposit certificate of Dividend
- Decision of the BOD and AGM for the dividend allocation / approval
- Proof of payment of required tax in the concerned tax office.

Repatriation of sale proceeds of investment / Principal

The following documents are required to be submitted at NRB along with application for approval of repatriation.

- Recommendation letter from DOI
- Letter of CIB with certification of “ Not Black Listed” for the company
- Approval of FDI taken from DOI/IBN
- Approval from NRB to bring the foreign currency into Nepal
- Bank Statement Bank Certificate showing inflow of foreign currency into Nepal along with the Endorsement Letter of NRB for the foreign investment done
- Approved Share sale /Purchase agreement between Foreign investor (seller) and Purchaser
- Valuation report of the assets and liabilities of the company/firm whose shares are being transferred (in case of unlisted companies, valuation shall be at fair value as per NFRS 3: Business Consideration)
- Registration document, PAN certificate, Articles and Memorandum (Photocopy)
- Updated Share Register certified by the office of company registrar
- If buyer is Nepalese individual / entity, notice from CIB that the individual/entity is not black listed
- In case of repatriation of principal/interest, a letter from CIB that the company is not black listed and has no overdue loan in any bank and financial institution
- Custom declaration certificate and invoice of the plant machinery if the FDI was obtained in the form of machinery
- Letter from IRD certifying that the applicable Capital Gain Tax and all other taxes have been paid if applicable.

Recording/Endorsement of Foreign Investment in NRB

The Firm/Companies incorporated under FDI in Nepal are required to submit application for the recording /endorsement of the foreign investment in shares or as loan in Nepal Rastra Bank (NRB). The information is required to be updated every year (within 3 months of the end of the financial year) if there are any changes. If recording/endorsement is not done properly and regularly, then there may be problem at the time of repatriation while taking approval of NRB.

Following documents are required to be submitted to record/endorse the Foreign Investment (Loan or Equity) in NRB

- Foreign Investment approval from DOI / IBN
- Board Decision to account for the investment in NRB
- Approval from NRB to bring Foreign exchange into Nepal
- Proof of inflow of foreign investment into Nepal (from respective banks as per the prescribed format of NRB along with SWIFT message)
- Letter from CIB that the firm/company is not black listed
- Articles and Memorandum, Business registration certificate, PAN certificate, Periodic tax clearance
- Approval of business operation (if the firm/companies are required to take such approval)
- Certificate of Registration of foreign investor if company/firm, and Passport in case of individual
- Decision of foreign investor to make investment in Nepal
- Audited financials of the Nepalese firm/company
- Audited financial of foreign investor if it's an entity
- Updated Share Register from office of Company Registrar
- Documents showing sources of investment, and other documents as asked by NRB.

DOING BUSINESS IN NEPAL 2019



WHAT ABOUT TAXATION?

Taxation in Nepal

Nepal levies a wide variety of taxes, including income tax (corporate income tax and personal income tax), value added tax, excise duty, custom duty, property related tax (land registration tax, property transfer tax) and others like stamp duty.

A. Direct Taxes

Income Year: Mid-July of one year to Mid-July of another year (Shrawan to Ashad as per Nepalese 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"

An entity is resident in Nepal if it is registered /formed as per the laws of Nepal.

Tax Rate

Normal Income tax rate for corporates	25%
However, entities operating banking and General Insurance Business, dealing petroleum products, producing cigarettes, cigars, liquors and other related products	30%
Entities as explained below	20%
- Special Industries (Manufacturing industries specified in Industrial Enterprises Act)	
- Entities operating road, bridge, tunnel, rope-way or overhead bridge upon construction	
- Entities operating trolley bus or tram	
- Cooperatives other than fully exempt from tax	
- Income from export	
- Entities constructing public infrastructures on BOOT (Build-Own-Operate-Transfer) model	
- Entities involved in construction of Electricity Powerhouse, Production and Transmission lines	
Repatriation by Foreign Permanent Establishment (FPE) of a Non-resident	5%
Non- residents carrying air and water transport or telecommunication service	5%
Other Non-Residents	25%

Tax Exemptions and Concessions

Industry/Entity/ Person	Condition	Applicable Tax Rate /Concession / Exemption
Special Industry and Information Technology Industry	Direct Employment to 100 or more Nepali Citizens throughout the year	10% concession on the rate otherwise applicable
	Direct Employment to 300 or more Nepali Citizens throughout the year	20% concession on the rate otherwise applicable
	Direct Employment to 500 or more Nepali Citizens throughout the year	25% concession on the rate otherwise applicable
	Direct Employment to 1,000 or more Nepali Citizens throughout the year	30% concession on the rate otherwise applicable
Special Industry	Direct Employment to 1,200 or more Nepali Citizens throughout the year	20% concession on the rate otherwise applicable
	Direct Employment to 100 or more Nepali Citizens covering at least 33% from Women, Marginalized (Dalits) or Disable throughout the year	20% concession on the rate otherwise applicable to that income
	Established in a remote area	90 % concession on the rate otherwise applicable for the period of 10 Years commencing from and including the year in which the operation commences
	Established in a undeveloped area	80 % concession on the rate otherwise applicable for the period of 10 Years commencing from and including the year in which the operation commences
	Established in a under-developed area	70 % concession on the rate otherwise applicable for the period of 10 Years commencing from and including the year in which the operation commences
	Established with an investment of more than NPR 1 billion and direct employment to more than 500 people throughout the year	Complete concession for a period of 5 years from the date of operation and thereafter 50% concession on the rate otherwise applicable for 3 years
	Existing industry increasing their installed capacity by at least 25%, increasing their investment to NPR 1 billion and direct employment to more than 500 people throughout the year	Complete concession for a period of 5 years from the date of operation and thereafter 50% concession on the rate otherwise applicable for 3 years, on the income generated from its increased capacity

Industry/Entity/ Person	Condition	Applicable Tax Rate /Concession / Exemption
Industry established in Special Economic Zone (SEZ) Special Industry, Agriculture Industry and Tourism Related Industry	Industry established in Himali District, and Pahadi district specified by Nepal Government in SEZ	complete concession for a period of 10 years from the date of commencement of transactions and 50% concession on the applicable rate thereafter
	Industry established other than in Himali District, and Pahadi district specified by Nepal Government in SEZ	100% tax concession 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	Complete tax concession for a period of 5 years from the date of commencement of transactions and 50% concession on the applicable rate for next 3 years
	Income of a foreign investors generated from foreign technical or management service fee and royalty from industry established in SEZ	50% concession on applicable tax rate
	Capitalization of its profit with the view of extension of its capacity	Complete concession on Dividend Tax to be paid on capitalization
Person engaged in research and extraction of petroleum and natural gas Industry	Engaged in commercial operation until Chaitra, 2080 (April 13, 2024)	Complete concession 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 related to software development, data processing, cyber cafe, digital mapping established in prescribed technology park, biotech park and information technology park as published in official gazette of Nepal Government	50% concession on applicable tax rate
Person or Entity	Licensed Person or entity has to produce, transmit and distribute electricity by Chaitra 2080 (April 12, 2024). This is also applicable to electricity produced from solar, wind and compost	Complete concession for a period of 10 years from the date of commencement of transactions and 50% concession on the applicable rate thereafter for 5 years
Production Industry	Exported goods produced outside the country	25% concession on the applicable tax rate from such income
Construction and Operation Company	Construction and operation of road, bridge, airport and tunnel road or investment in tram, trolley bus	40% concession on the applicable tax rate from such income
Listed companies	Production companies, tourism service companies, companies engaged in production, distribution and transmission of electricity listed in Stock Exchange	15% concession on the applicable tax rate from such income

Production Industry	Industry producing brandy, cider and wine based on fruit in remote area	40% concession on the applicable tax rate for a period of 10 years from the date of commencement of transactions
Person	Royalty income received from export of intangible asset	25% concession on applicable tax rate from such income
Person	Income from transfer of intangible asset	50% concession on the applicable tax rate from such income
Tourism related industry or airline company operating international flight	Investment more than NPR 2 billion	100% concession on applicable tax rate for a period of 5 years from the date of commencement of transactions and 50% concession on applicable rate thereafter for 3 years
	Provided that the existing industry increasing their connected capacity by at least 25%, reaching their investment of NPR 1 billion and direct employment to more than 500 people throughout the year	Complete concession in Income Tax for a period of 5 years from the date of commencement of transactions and 50% concession thereafter for three years, from the income generated from its increased capacity

Note

'Special Industry' means the industry as mentioned in Industrial Enterprises Act, 1992 other than industry based on tobacco, liquor.

Where a person qualifies for more than one concession with respect to same income, the person shall be entitled to one concession with respect to that income at his discretion.

Gifts made by a person to a tax exempt organization is subject to maximum 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 amount is deductible from Taxable Income.

Deductions

Apart from general deductions following specific deductions are allowed while calculating taxable income.

Repair and Maintenance Expense

Limit: Upto 7% of the depreciation base (limit not applicable to Airline Company if within parameter of Civil Aviation authority)

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: Upto 50% of adjustable taxable income

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.

Research and Development Cost

Limit: Upto 50% of adjustable taxable income

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.

Depreciation

Depreciation is allowed as per written down value (WDV) basis method 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, Fixtures and Office Equipment	25%
C	Automobiles, Bus and Minibuses	20%
D	Construction and Earth Moving equipment and unabsorbed portion of Repair & Maintenance, Pollution Control Cost and Research and Development Cost	15%
E	Intangible asset Other than 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
- Export Oriented Industries
- Entities engaged in infrastructure development under BOOT scheme
- Co-operative registered under Co-operative Act (Only for tax exempt)

Losses Carry Forward

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

However, in case of special industries like entities dealing in petroleum products, BOOT projects, Projects involved in Electricity Power House, 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.

Tax Avoidance Scheme

If a person makes any arrangement with the purpose of avoiding or reducing tax liability, Tax 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.

Personal Income Tax

An individual is resident in Nepal if he resides for a period of 183 days or more in 365 consecutive days. A person who is not resident of Nepal is non-resident individual.

Income of an individual resident is taxed on progressive rate as follows

Income Level (NPR)	Tax Rate
Up to 400,000*	1% Social Security Tax
Next 100,000	10%
Next 200,000	20%
Next 1,300,000	30%
More than 2,000,000	36%

*For couple (NPR 350,000 if opted individual)

The following amounts are deductibles.

- Contribution to Retirement Payment up to maximum of NPR 300,000
- Donation to tax exempted entities up to maximum of NPR 100,000
- Insurance premium up to NPR 20,000
- Remote area allowances up to maximum of NPR 50,000

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.

Withholding Taxes

Payment Subject to Withholding	Withholding Tax Rate (%)	Final Withholding (Yes or No)
Interest, Natural Resource, Royalty, Commission, Service Fee, Sales Bonus payment by a resident person having source in Nepal		
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 commission to non-resident	5	Yes
<ul style="list-style-type: none"> • Service payment to a resident person registered under VAT • Payment of more than NPR 50,000 under a contract or agreement 	1.5	No

Rent payment having source in Nepal	10	Yes
Dividend, Gain from Investment Insurance	5	Yes
Win fall Gain	25	Yes
Payment for service to a non-resident company	15	Yes
Payment of repair & maintenance of aircraft and payment for other contract or agreement to a non-resident company	5	Yes
Payment of re-insurance to a non-resident	1.5%	Yes
Payment for the transportation services	2.5%	No
Other payment to non-resident	As per written information by IRD	Yes

Following Advance Taxes are applicable

Gain on Sale of Shares

- In case of sale by a natural person - 5% - Listed Company, 10% - Unlisted Company
- In case of sale by any other person - 10% - Listed Company, 15% - Unlisted Company.

However, normal tax rate is applicable to a person other than natural person and advance tax paid can be allowed to set off from final tax liability.

Gain on Transfer of Land & Building

Gain on transfer of land or land & building on transaction exceeding NPR 3 million (to be collected by land revenue office at the time of registration) in case of natural person

- Disposal of land or land & building owned for more than 5 years – up to 2.5%
- Disposal of land or land & building owned up to 5 years – up to 5%
- In other case – normal tax rate applicable

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. 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.

Advance Tax Return

Based on estimated tax liability

- Within Mid-January (Poush end) of Income Year (First Installment) – 40% of Tax Liability
- Within Mid-April (Chaitra end) of Income Year (Second Installment) – 70% of Tax Liability
- Within Mid-July (Ashad end) of Income Year (third Installment) – 100% of 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 by Tax Authority which can be performed within four years from the date of submission of Income Tax Return.

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.

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 third of disputed amount and further to Revenue Tribunal by depositing half of principal portion of disputed amount and full portion of fines and penalties.

B. Indirect Taxes

Value Added Tax (VAT)

Applicability

VAT is applicable on supply of goods or services;

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

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

Tax Rate - Single rate 13%

Registration

Every 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.

VAT Records

Purchase book, Sales Book and VAT records, either manual or computerized, are the basic records to be maintained by a registered person.

VAT Credit and Refund

VAT paid on purchase of raw materials and expenses on production of finished goods are allowed to take credit within one year from the date of transaction. VAT credit is allowed for goods or services exported out of country and charged at zero rate.

Input tax credit of a tax period which could not be adjusted against next six 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 of Such excess tax paid in the same tax period.

Such refund shall be made within 3 years from the end of tax period.

VAT Return

Every registered taxpayer is required to submit VAT return within 25 days from the end of Nepalese Calendar month. However, certain industries like publishing houses and brick industry can opt for quarterly submission.

Facilities

Bank guarantee facility is available for VAT payable on purchase of raw materials and services for those industries exporting more than 40% of its production during previous 12 months.

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.

Advance Ruling

If there is ambiguity in application of any issue as per VAT 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 third of disputed amount and further to Revenue Tribunal by depositing half of principal portion of disputed amount and full portion of fines and penalties.

Excise Duty

Applicable Act

Excise Act 2002 & Excise Rules 2003 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 custom purpose plus custom duty

Licensing

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 liquor, cigarette and tobacco.

Self-Removal System – in case of other goods.

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 25th of the month following the issue of invoice
Goods imported	At the time of entering of such goods
Service imported	As prescribed by Department

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 third of disputed amount and further to Revenue Tribunal.

Custom Duty

Applicable Act

Customs Act 2007 & Customs Rules 2007 and amendment made by Finance Act from time to time.

Applicability

Custom Duty is applicable 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 Act.

Facilities

Bank Guarantee Facility is provided to export industries and Duty Free Shops. Further, certain custom 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): Custom 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, he can apply to Valuation Review Committee.

Other Taxes

Health Service Tax

5% of health service invoices of all entities providing health services except for those provided by

Government of Nepal and Community Hospitals shall be charged.

Education Service Fee

1% on monthly fee and admission fee (Applicable to private sector schools providing more than higher level secondary education)

Telecommunication Service Charge

To be charged from customer 11% of the collected amount.

Telephone Ownership Fee

Rs. 1,000 per connection in case of postpaid and 2% of value of SIM and Recharge Card

Infrastructure Tax

Rs. 5 per liter for import of petrol, diesel and aviation fuel.

Road Repair and Improvement Fee

Rs. 4 per liter in petrol and Rs. 2 per liter in Diesel

Pollution Control Fee

Re. 0.50 per liter in petrol and diesel

Casino Royalty

Annual License Fee for Casino – Rs. 30 million. Annual License Fee for Casino using only modern equipment and machines – Rs. 7.5 million

DOING BUSINESS IN NEPAL 2019

WHAT ABOUT OTHER LEGAL ASPECTS?

A light blue background featuring several silhouettes of business professionals in suits. Some are standing and talking, while others are gesturing. The background is decorated with various upward-pointing arrows of different sizes and orientations, symbolizing growth and progress.

Foreign Investment and Technology Transfer Act

Foreign Investment

“Foreign Investment” means the following investment made by a foreign investor in any industry”

- Investment in Share (Equity)
- Reinvestment of the earnings derived from the investment as referred to in Sub-section (1) above,
- Investment made in the form of loan or loan facilities

Moreover, the investments in kind, for example in machineries and equipment are also accepted as the foreign investment as a part of investment in shares.

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

- Use of any technological right, specialization, formula, process, patent or technical know-how of foreign origin.
- Use of any trademark of foreign ownership.
- Acquiring any foreign technical, consultancy, management and marketing service
- Technology transfer is possible even in areas where foreign investment is not allowed.

Foreign Investor

“Foreign Investor” means any foreign individual, firm, company or corporate body involved in foreign investment or technology transfer including foreign government or international agency.

Permission to be obtained

- For investment in an Industry with fixed assets of up to NPR 500 million, permission of foreign investment or technology transfer to be taken from Department of Industry (DOI), and from the Industrial Promotion Board if it is in excess of NPR 500 million
- No permission shall be granted for making investment in the industries like cottage, arms and ammunition, security printing, poultry farming, Fish Farming, general trading etc.

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 received as profit or dividend in lieu of the foreign investment
- The amount received as the payment of the principal of and interest on any foreign loan
- The amount received as the payment of technical and managerial fees, and certain portion of
- Salaries of foreign experts have been guaranteed.

Provisions Related to Visa

- Prospective Foreign Investors are entitled to non-tourist visa for a period of six months.
- Until the foreign investment is retained, foreign investors and dependent thereof are entitled to business visa. Further, foreign investor making investment of USD 100,000 or more at a time is entitled to get resident permit until such investment is retained. Resident permit can be extended to dependent family as well.

Settlement of Disputes

- To be settled mutually in presence of Department. If not, keeping into consideration of arbitration of UN Commission on International Trade Law.
- Arbitration – Investment below NPR 5 million - Kathmandu and Nepal laws applicable. If it is above, arbitration can be anywhere.
- Notwithstanding above points, industries as specified, the dispute settlement shall be as mentioned in foreign investment agreement.
- Nepal is also a signatory to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States and a member of the International Centre for the Settlement of Investment Disputes (ICSID), associated with the World Bank.

Industrial Enterprises Act

Registration of an Industry

Every industry has to apply for registration before establishment or operation.

The registration document has to be issued by the authority within 15 days if all documents are submitted along with application. Seven days' further period is given to the applicant to submit the documents if all are not in order.

The authority may allow to set up an establishment, operation, business production or operation only after making environment impact assessment (EIA) if it needs to be done after registration of the Industry. The authority may also add certain conditions to comply with while making registration.

Classification of Industry and Fixed Assets

The classification of industry is based on

- Size of fixed investment, and
- Nature/sector of business

The Act list out the industries falling within each classification and grants authority to the Industry and Investment Promotion Board to recommend to the Government of Nepal to alter the classification of industries.

Small Industry: Industry having fixed capital up to NPR 100 million (except SSE and Cottage industry),

Medium Industry: Industry having fixed capital more than NPR 100 million and not exceeding NPR 250 million.

Large Industry: Industry exceeding fixed capital NPR 250 million.

Fixed Capital of Industry

For the purpose of Industrial Enterprises Act, following asset shall be considered as base for determining Fixed Capital

- Construction or improvement of physical infrastructure in Land, underground, air space, water or underwater
- Physical infrastructure like drainage, internal transport, drinking water system etc constructed above land
- Office, factory, building or warehouse of industry
- Residential building constructed for employees or labor
- Supply of electricity and equipment thereof along with supply system
- Machinery, equipment, accessories and stock of parts
- Vehicles
- Office equipment and accessories
- Furniture and Fixture
- Communication accessories and other equipment and system thereof

In addition to above assets, expenses prior to incorporation of industry or during construction period is included in fixed capital

- Technical and supervision expenses which are of capitalized nature
- Prior period and pre-investment expense
- Interest to be capitalized

Formation of Industry and Investment Promotion Board

For the purpose of promotion, establishment, investment increment, protection and extension of industrialization a board shall be established with the role of coordination and taking policy decision in the chairmanship of ministry of industry and including other line agency secretary as members.

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 Industrial Enterprises Act.

Please refer the 'Taxation' part above in detail.

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

- Industries based on forest products can be given possessory right pursuant to existing laws over forest in any region through lease or other promissory guarantee under prescribed conditions.
- 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.
- Government of Nepal may provide exemptions in Demand Charge added in Electricity cost under prescribed conditions and procedures.
- Industries operating under Foreign Investment may be given approval to import goods produced by the head office located in foreign countries for production, market development and promotion of new goods for a prescribed period under prescribed terms and conditions.

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 Labour laws.

Corporate Social Responsibility (CSR)

Every Medium or Large industry, or Small industry having annual turnover of more than 150 million are required to allocate 1% of annual profit for the purpose of CSR. The fund created for CSR is to be utilized on the basis of annual plans and programs in the sectors prescribed under the Act. The progress report of the utilization of the fund collected for CSR is required to be submitted to the relevant government authorities registered within three months from expiry of Financial Year.

Companies Act/Rules

Service Restriction

To carryout 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 share in premium

Private company can issue shares at a premium if decided by its General meeting.

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 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, 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.

Prohibitions 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 man 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 company 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.

Foreign Exchange Regulation

- Industries which have got approval for foreign investment from Department of Industries or Investment Board of Nepal shall take prior approval of Nepal Rastra Bank (NRB) to bring foreign investment into Nepal.
- Such industries shall submit a record of such foreign investment brought into Nepal (whether in Shares or as Loan) along with some other documents to NRB within specified period for Endorsement of their Foreign Investment.
- Any change in the foreign investment must be notified to NRB.
- NRB may give permission to the FDI companies to take foreign loan from the foreign personnel involved with the companies.

Foreign Investor can repatriate following amounts in foreign currencies with prior approval of NRB:

- Investment made in securities and profit /dividend earned from the investment
- Investment made in the form of loan or loan facility and interest thereon.Amount of technological fees, royalty etc. as mentioned in the approved agreement for technology transfer.
- After selling shares of the company as per exit strategy of Foreign Investor.

Labor Act

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.

The New law 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 getting 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 fill the vacant posts by Nepali citizens. If no application is submitted or if no local skilled person is available for any work after the vacancy publication foreign national can be hired for the work with the approval of Labor Department.

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.

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.

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's Labour 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 up to 90 days of home leave and 45 days of sick leave and excess accumulation should be encashed every year.

Retirement contributions

Provident Fund

Employer shall deduct 10 % of the basic remuneration of the employee and add same amount and then deposit the amount as provident fund contribution from the start of the employment. Such amount shall be deposited in Social Welfare Fund as prescribed.

If the provident fund amount cannot be deposited as mentioned above, then the employer shall pay the 10% of basic remuneration to the employee in addition to his/her monthly remuneration.

Gratuity

Employer shall deposit 8.33% of the basic remuneration of each employee as a gratuity in the Social Welfare fund as prescribed.

If the Gratuity amount cannot be deposited in Social welfare fund, employer shall pay 8.33% of basic remuneration to the employee in addition to his/her monthly remuneration and from the first day of employment

Insurance

Employer shall do medical insurance of annual NPR 100,000 (minimum) for each employee, the premium on such insurance shall be paid by employer (50%) and employee (50%).

Employer shall do accidental insurance of NPR 500,000 (minimum) for each employee, the premium on such insurance shall be fully paid by employer.

Bonus Act

Submission of Financial Statements

Every organization is required to submit their financial statements to Labor Department within 6 months from the end of the financial year.

Bonus Provision

Every organization shall make provision of bonus equal to 10 % out of its net profit for the year.

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 equal to 6 months' salary for employees having monthly salary of NPR 5,000 or less.
- Amount equal to 4 months' salary for employees having monthly salary of NPR 5,001 to 15,000.
- Amount equal to 3 months' salary for employees having monthly salary in excess of NPR 15,000.

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.

Employee Welfare Fund

Out of the balance amount of bonus (after making all payments) for any financial year, 70% of the amount shall be transferred to the Employee Welfare Fund constituted as per section 37 of the Labor Act. The balance 30% shall be transferred to the Employee welfare fund of national level constituted by the government.

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.

References

- Nepal Investment Guide by Investment Board of Nepal
- Reports/Publications from Department of Industries
- Procedural Manual of DOI 2016
- Economic Survey of Government of Nepal 2017/18
- Doing Business in Nepal 2018 of World Bank
- Acts / Rules of Government of Nepal
- NRB Directives / Circulars

Abbreviations

ADB	Asian Development Bank
AGM	Annual General Meeting
AIIB	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 Creditability 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	Multilateral Investment Guarantee Arrangement
NFRS	Nepalese Financial Reporting Standard
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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Management Consulting

Business Risk Advisory

Financial Inclusions

Merger and Acquisitions (M&A)

Legal & Compliance

Information Systems Security

Human Resource Development

Entrepreneur Development Program



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