

# Doing Business in Nepal



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# Contact Us in Nepal

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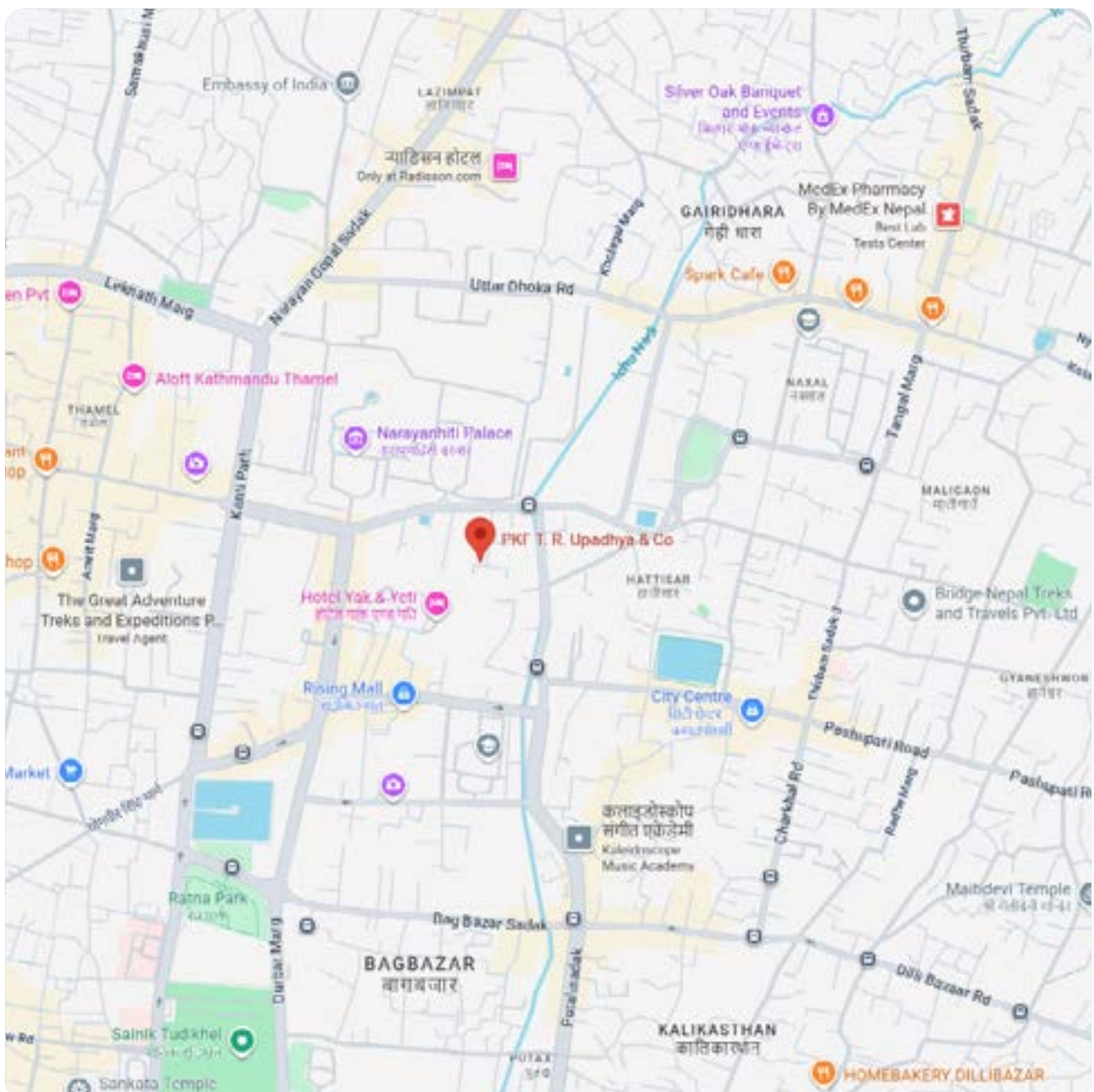
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# Acronyms

<b>ALP</b>	Arm's-length price	<b>IPR</b>	Intellectual property rights
<b>AoA</b>	Articles of association	<b>IPSA</b>	International public sector accounting standards
<b>ASBN</b>	Accounting Standards Board, Nepal	<b>IRD</b>	Inland Revenue Department
<b>AuSB</b>	Auditing Standards Board, Nepal	<b>IRO</b>	Inland Revenue Office
<b>BFI</b>	Banks and financial institutions	<b>ISD</b>	Inheritance and Gift Tax Act
<b>CIF</b>	Cost, insurance and freight	<b>ITA</b>	Income Tax Act, 2058
<b>COP</b>	Certificate of practice	<b>MoA</b>	Memorandum of association
<b>CSR</b>	Corporate social responsibility	<b>MW</b>	Megawatts
<b>DCSI</b>	Department of Cottage and Small Industries	<b>NAS</b>	Nepal accounting standard
<b>DOED</b>	Department of Electricity Development	<b>NFRS</b>	Nepal financial reporting standard
<b>DOI</b>	Department of Industries	<b>NGO</b>	Non-governmental organisation
<b>DoSCP</b>	Department of Commerce, Supply and Protection	<b>NPR</b>	Nepali rupees
<b>DTAA</b>	Double taxation avoidance agreements	<b>NRB</b>	Nepal Rastra Bank
<b>EIA</b>	Environmental impact assessment	<b>NRN</b>	Non-resident Nepali
<b>EOI</b>	Expression of interest	<b>NSA</b>	Nepal standards on auditing
<b>FDI</b>	Foreign direct investment	<b>OCR</b>	Office of the Company Registrar
<b>FERA</b>	Foreign Exchange (Regulation) Act, 1962	<b>PAN</b>	Permanent account number
<b>FITTA</b>	Foreign Investment and Technology Transfer Act, 1992	<b>PEF</b>	Private equity fund
<b>FY</b>	Financial year	<b>POA</b>	Power of attorney
<b>GDP</b>	Gross domestic product	<b>PPP</b>	Public private partnership
<b>GoN</b>	Government of Nepal	<b>SEBON</b>	Securities Board of Nepal
<b>IBN</b>	Investment Board Nepal	<b>SEZ</b>	Special economic zone
<b>ICAN</b>	Institute of Chartered Accountants of Nepal	<b>SSF</b>	Social Security Fund
<b>IEA</b>	Industrial Enterprise Act	<b>SWC</b>	Social Welfare Council
<b>IEE</b>	Initial environment examination	<b>TDS</b>	Tax deducted at source
<b>IFRS</b>	International financial reporting standards	<b>TP</b>	Transfer pricing
<b>INGO</b>	International non-governmental organisation	<b>TRU</b>	T. R. Upadhya & Co., Chartered Accountants
		<b>VAT</b>	Value added tax
		<b>VCF</b>	Venture capital fund



# Foreword

This publication has been produced to support clients of the PKF Global member firm in Nepal, and as an introduction to the legal and commercial environment of Nepal for those considering doing business within its jurisdiction. The contents provide a guide for understanding the business processes, not a complete description of everything a business or entity needs to know. This guide should not be used as the basis for laws of Nepal which are constantly being modified – both legislatively and judicially. Clients are advised to seek specific professional advice before proceeding with any business activities in Nepal.

PKF T. R. Upadhyaya & Co. provides various materials regarding recent updates in the country, including updates on prevailing laws and regulations, as well as taxation laws, on a periodic basis. These materials can be found on the firm's official website, in the form of flash alerts, monthly newsletters and other publications/highlights.

We, at PKF Nepal, hope this publication will provide readers with insights into setting up a business in Nepal.



# Demographic and Environmental Overview

## A Profile of Nepal

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Nepal is one of the world's most captivating and unforgettable destinations. From the lush green jungles of the southern plains to the snow-capped peaks of the towering Himalayas, Nepal seamlessly blends breathtaking natural beauty with remarkable cultural diversity.

Home to eight of the world's 10 highest mountains – including Mount Everest (Sagarmatha) – Nepal offers awe-inspiring landscapes that attract adventurers and nature lovers alike. It also boasts the world's largest Shiva temple (Pashupatinath), is the birthplace of Siddhartha Gautama (the Buddha) and shelters rare wildlife such as the elusive snow leopard, the one-horned rhinoceros and majestic Bengal tigers.

With a stable political climate, growing investment opportunities and a strong trajectory of economic development, Nepal is steadily advancing on its path toward lasting prosperity.

Agriculture, tourism and remittances are key contributors to Nepal's economy. In recent years, the government has focused on infrastructure development, foreign investment and sustainable energy projects to boost growth.



## Geography and Population

Nepal is a landlocked country situated on the southern flank of the Himalayas. It is a sovereign country in South Asia, and borders China in the north and India in the south, east and west. It has an area of 147,181 square kilometres and its rectangular proportions measure on average 885km in length and 193km in breadth. Nepal is enclosed between the Tibetan plateau and the Gangetic plains in the Central Himalayas. Nepal is divided into three principal physiographic belts known as Himal-Pahad-Terai. The geographical features of Nepal not only manifest the diversity but also reflect distinctive patterns of settlements, population distribution, culture and economy.

Nepal is a multicultural, multilingual and multi-ethnic country, home to 125 distinct ethnic groups, speaking 123 different mother tongues and following several indigenous and folk religions in addition to Hinduism, Buddhism, Islam and Christianity.



Descendent of Sanskrit, Nepali is written in Devanagari script and serves as the official language amongst various ethno-linguistic groups. Nepal is a secular country, as declared by the Constitution of Nepal. Nepal's socio-cultural diversity is a source of pride and unity, fostering a sense of belonging and collective identity among its people while also attracting interest and admiration from visitors around the world.

Nepal has an estimated population of 29.6 million (based on Worldometer's elaboration of the latest United Nations data as at June 2025), representing approximately 0.36% of the global population. It ranks 52nd in the world by population. Uniquely, Nepal is both one of the 10 least urbanised and 10 fastest urbanising countries globally. The capital city, Kathmandu – often called the 'City of Temples' – is Nepal's largest city as well as its cultural, political and economic centre.

## Legal System

Nepal is a federal, democratic republic and secular state, where the largest majority of Hindu population resides. As an independent, indivisible, sovereign, secular, inclusive, democratic, socialism-oriented federal democratic republican state (art. 4(1), the Constitution of Nepal), the country has been a federal democratic republic since May 2008. Historically, the Nepalese legal system is based on Hindu philosophy and its growth and development are largely influenced by Hindu religious texts.

The Federal Parliament of Nepal is the bicameral federal and supreme legislature of Nepal established in 2018. It consists of the National Assembly as the upper house and the House of Representatives as the lower house.

The president is the head of state of Nepal and the prime minister is the chief executive of the government of Nepal who is elected by the Legislature-Parliament. The executive branch of government includes the president, the prime minister, the Council of Ministers or Cabinet, constitutional and statutory bodies and the bureaucracy, comprising various personnel services, formed to carry out executive functions. Nepal is a member of the South Asian Association for Regional Cooperation (SAARC). The administrative divisions of Nepal are subnational administrative units of Nepal. The first level of country subdivision of Nepal is the provinces. Each province is further subdivided into districts, each district into municipalities and rural municipalities, and each of those municipalities into wards. Nepal is composed of seven provinces. Provinces are further divided into 77 districts. Urban municipalities are categorised into three levels: metropolitan city ([Mahanagarpalika](#)), sub-metropolitan city ([Upmahanagarpalika](#)) and municipality ([Nagarpalika](#)). There are six metropolitan cities, 11 sub-metropolitan cities and 276 municipalities in Nepal. Rural municipalities are known as [Gaunpalikas](#).

Under the judicial system, Nepal has three types of courts. They are the district court, the appellate court and the supreme court. The supreme court is the highest judicial body.

## Environmental Overview

The country is renowned for its diverse geography, which ranges from the lowland Terai plains to the towering Himalayan peaks, including Mount Everest. This geographic diversity is mirrored in its rich biodiversity and varied climates. With highly fragile and young mountain geology, Nepal exhibits a broad range of diversity – topography from sea level to the tallest peak in the world, precipitation from arid rain shadow areas to highly flood-prone plains and environment from glacial to tropical ecosystems.

Nepal's unique geological setting, rich natural resources, abundant water, fertile lands and cultural diversity form a sound basis for the socio-economic development of the country. However, balancing conservation with sustainable development remains a critical challenge for the country. Agricultural expansion, illegal logging and fuelwood collection have resulted in deforestation which in turn has led to habitat loss, soil erosion and increased vulnerability to natural disasters. Soil erosion and degradation, declining soil fertility, Nepal's monsoon-dependent agriculture, the unsustainable use of fertilisers and pesticides, as well as increasing temperatures, variation in precipitation and frequency and intensity of droughts and floods have reduced agricultural production. Despite these constraints, Nepal has the potential to deliver higher and more inclusive growth by properly utilising the large amount of water available for generating hydropower and irrigation, processing its abundant medicinal herbs and promoting tourism. Agriculture has high potential if productivity is increased and transformed into commercial high-value products.

As part of its environmental conservation strategy, Nepal's Parliament enacted the Environment Protection Act, 2076 (2019) on 19 July 2019, replacing the earlier 1997 Act. The new law explicitly addresses climate change by requiring the government to identify greenhouse gas-emitting sectors, set mitigation targets and empower participation in carbon trading mechanisms.

Furthermore, over 20% of Nepal's land – including national parks, wildlife reserves, conservation areas and buffer zones – is formally protected, with active wildlife conservation, anti-poaching efforts and habitat restoration under frameworks like the National Parks and Wildlife Conservation Act, 1973. Internationally, Nepal is a party to more than 20 environment-related conventions (including UNFCCC, CBD, Basel, Stockholm, Minamata, CITES and Ramsar). It has ratified these treaties and responded through national-level policies, strategies and action plans – such as the National Climate Change Policy (2019), NDCs and NAPA – to fulfil its obligations.

## Economic Summary

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Nepal is upgrading from an underdeveloped country to a middle-income developing country by 2026. The economy of Nepal is heavily dependent on remittances, which amount to as much as 30% of gross domestic product (GDP). Agriculture is the mainstay of the economy, providing a livelihood for almost two-thirds of the population but accounting for one third of GDP. Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, oilseed and grain. Major industries include tourism, carpets, textiles, cigarettes, cement and brick. Nepal's economy is projected to grow by 4.5% in FY 2025, up from 3.9% in FY 2024, and is expected to average 5.4% annually in FY 2026–27 with modest recovery, driven by growth in the service sector, revived tourism and a pickup in hydropower exports.

The GDP in Nepal is expected to reach US\$42.96 billion by the end of 2025, according to Trading Economics' global macro models and analysts' expectations. The GDP in Nepal was worth US\$40.91 billion in 2023, according to official data from the World Bank. The GDP value of Nepal represents 0.04% of the world economy. Nepal has been a member of the WTO since 23 April 2004. According to the World Bank's report, Nepal ranks 94 out of 190 countries surveyed in the 'Ease of Doing Business' index (2020) by scoring 63.2 points.

## Services and Exchange Controls

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Nepal is engaged in the importation of goods and services, including essential items like education and healthcare, as well as relating to diplomatic missions and travel abroad. Such imports reflect Nepal's engagement with the global economy and its efforts to meet the diverse needs of its population, facilitating international education and healthcare opportunities, or maintaining diplomatic relations with other nations. Nepal actively seeks financial assistance and loans from diverse sources to support its development agenda. These collaborations play a crucial role in Nepal's journey towards sustainable growth and prosperity.

Remittances from migrant workers are the highest source of foreign exchange and are supported by the export of goods and services, tourism, outsourcing and IT services, INGOs and charity organisations, foreign direct investment, foreign debt, etc. These sources collectively contribute to Nepal's foreign exchange reserves, which are crucial for maintaining stability in the balance of payments, financing imports and supporting economic growth and development initiatives.

Nepal Rastra Bank, the central bank of Nepal, is a regulator of the foreign exchange system. In order to regularise and control foreign exchange transactions, the Foreign Exchange (Regulation) Act, 1962 (2019) (the FERA) is in effect. FERA covers a wide range of scope, including:

- use of foreign exchange investment and technology transfer;
- use of foreign exchange for the payment/ receipt of foreign trade;
- use of foreign currency in loan exchange (transaction) with foreign entities; and
- regulations of foreign-related transactions.

## Nepal Today

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Nepal's economy has seen improved growth in the first half of FY 2025 compared to FY 2024, supported by the agriculture and industrial sectors, helping its economic growth rebound from 3.9% in FY 2024 to a forecast of 4.5% in FY 2025. Growth is then projected to further accelerate to 5.4% on average, over FY 2026-27. This growth is despite natural disasters and disruptions in tourism. Financial and insurance activities have also expanded, although there was a contraction in wholesale and retail trade. The industrial sector has contributed to growth as well, supported by higher hydroelectricity production. In agriculture, there was an increase in paddy production, aided by improved seed availability and favourable weather conditions. The banking sector remained stable and profitable despite challenges.





Official remittance inflows fell in the first half of FY 2025, driven by a reduction in migrant outflows. The current account balance surplus declined from 2.8% to 2.4% in FY 2025 as declining remittance inflows offset a lower trade deficit. However, foreign exchange reserves remain adequate.

Nepal's poverty rate also fell due to migration and remittances, alongside consumption increases. The recent national household survey data from the Nepal Living Standard Survey 2022/23 shows a large decline in poverty from 25% to just 3.6% between 2011 and 2023 (using the 2011 National Poverty Line). The prosperity gap and inequality also reduced over the same period.

Nepal adopted the Green, Resilient and Inclusive Development (GRID) approach as a national vision to guide long-term green growth and build resilience to climate and other shocks that are barriers to Nepal's development ambitions.

Significant projects like gender-based violence response, 'Finance for Growth', have been launched by the country with financial assistance from the World Bank to empower women, to strengthen the stability of the financial sector, diversify financial solutions and increase access to financial services. The World Bank's Board of Executive Directors approved an US\$80 million development policy credit for Nepal in 2024 as the third Finance for Growth development policy credit. The project will strengthen the supervision of the banking and insurance sectors in Nepal and foster financial product innovations in capital, insurance and disaster risk markets. This will also increase financial inclusion through digitalisation, enhanced credit infrastructure and improved financial literacy, with a focus on women entrepreneurs.



# Consumer Protection and Special Industries

## Intellectual and Industrial Property Rights

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With global economies increasingly dominated by technology and intellectual capital, its protection has gained prominence in advanced, developing as well as in emerging lower-middle income economies. Nepal, too, has recognised the significance of intellectual property with an aim of safeguarding the interests of creators, inventors and businesses. In the past few years, there have been growing concerns amongst legislators and regulators towards the protection of intellectual property and enforcement of intellectual property rights.

In Nepal, the protection and enforcement of intellectual property rights are primarily governed by the Copyright Act, 2059 (2002) and the Patent, Design and Trademark Act, 2022 (1965). Recently, the government of Nepal has also introduced the draft of the Industrial Property Rights Protection Act, 2022 which aims to provide more robust protection for intellectual property and facilitate greater compliance with global practices. This draft especially focused on ensuring protection to geographical indications (GIs) identifying the origin of goods from a specific place, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin. In addition, Nepal is also a signatory to various intellectual property treaties such as the Paris Convention for the Protection of Industrial Property, 1883, the Agreement on Trade-Related Aspects of Intellectual Property Rights, 1995 and the Berne Convention for the Protection of Literary and Artistic Works, 1886 pursuant to which Nepal is under an obligation to safeguard intellectual property rights. Nepal is also a member of the World Intellectual Property Organization.

Under the Patent, Design and Trademark Act, 2022 (1965), the right is protected under the registration of trademarks with the concerned authority. The trademarks are registered in Nepal if such a trademark:

- would not damage the reputation of any individual or institution;
- would not be likely to adversely affect public conduct or morality or the national interest;
- would not adversely affect the reputation of the trademarks of another person; and
- has not already been registered in the name of another person.

These are the restrictions on registrations. A trademark that passes these restrictions during the search and examination conducted by the Registry after receiving the application may be registered. A patent registered in this way would be valid for up to seven years, unless renewed.

If a person suffers any losses as a result of the violation of the provisions of the law by any other person in respect of a patent, design or trademark, the Department of Industry may order that compensation be paid by the offender to the title holder.

If a trademark is not brought into use within one year from the date of registration, the Registry can, after making appropriate investigations, cancel the registration of the mark.





The Copyright Act, 2059 (2002) of Nepal governs copyright, the right to control the use and distribution of artistic and creative works in Nepal and also encourages the creation of art and culture by rewarding authors and artists with a set of exclusive rights. The Copyright Registrar's Office handles copyright registration, recording of copyright transfers and other administrative aspects of copyright law.

Copyright protection can be extended to any works, except any thought, religion, news, method of operation, concept, principle, court judgment, administrative decision, folksong, folktale, proverb and general data despite the fact that such matters are expressed, explained, interpreted or included in any work.

## Consumer and User Protection

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The Consumer Protection Act, 2018, implemented in September 2018, is the relevant law in Nepal to protect the interests of consumers regarding the quality, quantity and price of consumer goods and services. The law seeks to address the shortcomings of the Consumer Protection Act, 1998. The primary objective of the law is to protect consumers from unfair trade practices, ensure the quality and safety of goods and services, and establish mechanisms for addressing consumer grievances. Under the law, investigations may be conducted into violations of consumer rights and complaints and/or prosecution may be pursued.

The Consumer Protection Act (Chapter 2) sets out the rights of consumers regarding the quality of goods and services, including the regulation of goods and services and affixation of a label. Chapter 4 of the Consumer Protection Act, 2018 prohibits various activities in order to protect consumers. The government of Nepal has been continuously working on strengthening the consumer protection framework through various initiatives such as amendments to existing laws, enhancing the capacity and resources of regulatory organisations like the Department of Commerce, Supply and Protection (DoSCP) and educating consumers about their rights through awareness campaigns.

# Legal Framework for Business

## Accounting Regulations in Nepal

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Accounts must be maintained according to the double entry system of accounting and in accordance with the Nepal financial reporting standards developed by the Accounting Standard Board, Nepal (ASBN) and promulgated by the Institute of Chartered Accountants of Nepal (ICAN) with such other terms and provisions required to be observed pursuant to the Companies Act, in such a manner as to reflect the actual affairs of the company. Every company should maintain its accounts in either Nepali or English.

The directors or other officers have the final responsibility to maintain books of account and records of the company. Where there is a default in complying with the Companies Act provisions in respect of the preparation of a company's books of account and annual financial statements, the director or officer, during whose tenure the annual financial statements and other reports have been prepared, shall be responsible.

For banks and financial institutions (BFIs), the Central Bank of Nepal (Nepal Rastra Bank) regulates and supervises the accounting and reporting requirements, while the Nepal Insurance Authority is the regulatory body for insurance companies. These bodies regulate and supervise the BFIs and insurance companies and circulate the templates/formats for the financial statements, including directives and circulars from time to time. The annual financial statements of BFIs and insurance companies are subject to review and approval from these authorities before being issued to the public.

## Accounting Standards – NFRSs and NAS

ASBN, an independent statutory body, is responsible for setting the standards for the preparation and presentation of financial statements in Nepal, and the ICAN is responsible for pronouncing the applicability of those standards. ASBN sets accounting standards for business enterprises in convergence with international financial reporting standards (IFRSs) and for public sector entities in line with international public sector accounting standards (IPSAS). The following standards have been pronounced by ASBN as applicable to business enterprises depending on the nature and volume of transactions:

- Nepal Financial Reporting Standards (NFRSs), 2018;
- Nepal Financial Reporting Standard for Small and Medium-sized Entities (NFRS for SMEs), 2017;
- Nepal Accounting Standards for Micro Entities (NAS for MEs), 2018; and
- Nepal Accounting Standards for Not-for-Profit Organisations (NAS for NPOs), 2018.

## Account Controls in Nepal: Statutory Audits

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Statutory audit provides reasonable assurance to all stakeholders that the financial statements give a true and fair view of the company's financial position. The Companies Act of Nepal requires every company to appoint an auditor and have its accounts audited. In cases where any company has a branch office outside Nepal, the auditor appointed may also audit the accounts of that branch office, except as otherwise provided in the prevailing law of the country where such a branch office is situated.

Statutory audits in Nepal are governed by the Companies Act, 2006, with Nepal standards on auditing (NSAs) set by the Auditing Standards Board, Nepal (AuSB), and pronounced by ICAN. ICAN issues the licence (certificate of practice) to its members to carry out audits under the prevailing laws of Nepal. ICAN is also responsible for regulating its members.

### **Appointment of Auditor**

A company auditor must hold a certificate of practice (COP) issued by ICAN. For both public and private companies, an auditor is typically appointed by the members at a general meeting. However, the board of directors may appoint an auditor prior to the company's first annual general meeting. The name of the appointed auditor must be provided to the Office of the Company Registrar (OCR) within 15 days of the date of appointment.

Where the annual general meeting of a company fails to appoint an auditor for any reason or where the annual general meeting itself cannot be held or where the auditor appointed ceases to continue in office for any reason, the OCR may, at the request of the board of directors of the company, appoint another auditor.

### **Standards on Auditing – Nepal Standards on Auditing (NSAs)**

The ICAN, an independent statutory body, issues NSAs formulated by the AuSB. The members of ICAN should follow NSAs while conducting audits and reviewing engagements.

AuSB reviews and revises the NSAs periodically or as the need arises. The AuSB determines the broad areas in which the NSAs need to be formulated and identifies which areas to prioritise. At the time of writing this guide, the AuSB has formulated Nepal Standards on Quality Control (NSQC 1), Nepal Standards on Quality Management I and II (NSQM 1 and NSQM 2), 49 NSAs, and the Nepal Standards on Auditing for Audits of Financial Statements of Less Complex Entities (the NSA for LCE).

These standards are in line with international standards on auditing (ISAs).



## Content of Financial Data to be Published: Annual Accounts

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Financial statements must be prepared by the board of directors of a public company every year at least 30 days prior to the annual general meeting. For a private company, financial statements must be prepared within six months of the company's financial year end. The following financial statements are required:

- a. statement of financial position as at the last date of the financial year;
- b. statement of profit or loss and other comprehensive income of the financial year;
- c. statement of cash flows of the financial year;
- d. statement of changes in equity; and
- e. notes, comprising significant accounting policies and other explanatory information.

For a company's year of incorporation, the financial statements should also contain the accounts from the date of its incorporation to the last day of that financial year. Thereafter, financial statements should include the accounts of the previous financial year.

In addition, every public company and private company with a paid-up capital of NPR 10 million or an annual turnover of NPR 100 million or more should prepare a separate report for the board of directors.

Financial statements should be kept open for inspection by any shareholder and should be retained for a period of at least five years following the end of the relevant financial year.

## Legal Audit Limits

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Every business entity registered in Nepal must have its annual accounts audited by an independent professional accountant holding a COP issued by ICAN for each fiscal year. The audited financial statements should be submitted to the respective regulatory authorities within six months of the end of the financial year. Audited financial statements should be submitted to the Income Tax Authorities no later than three months after the year end, though an application may be made to extend this deadline by a maximum of three months.

An auditor may not be appointed for more than three consecutive terms to perform the audit of a public limited company. The same rule applies to the partner, ex-partner, employee or ex-employee of an auditor. However, this restriction does not apply where a partner withdraws from the partnership or where an employee leaves the service of such an auditor at least three years before appointment.

A licensed auditor can audit the books of accounts of a maximum of 100 clients only per financial year. Out of these 100 clients, the number of public limited companies must not exceed 10. This limit applies to each member of a partnership firm. Organisations whose annual turnover is less than NPR 2 million (including, for example, proprietorship firms, partnership firms, cooperatives, government primary schools, religious organisations, social organisations, consumer groups, committees, trade unions, professional associations, and other entities of a similar nature) are not included when calculating the above limit.



# Forms of Business Organisations

## Setting up a Company in Nepal

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The following business structures are typically used in Nepal:

- company (public, private and profit not distributing);
- partnership;
- sole proprietorship;
- joint venture;
- trust; and
- branch and liaison office for foreign companies.

In addition to the above, NGOs, INGOs, and religious charitable organisations can also be set up in Nepal under the Society Registration Act and the Social Welfare Act of Nepal. For these organisations, the Social Welfare Council (SWC) of Nepal is the regulatory body which works alongside the relevant ministries, depending on the nature of welfare, charitable or religious activities to be undertaken by these organisations.



## Forms of Foreign Investment that can be made in Nepal

A foreign investor can invest in any permitted industry individually, jointly or through a joint investment with a Nepalese citizen or a company established in Nepal. Foreign investment in Nepal is regulated by the Foreign Investment and Technology Transfer Act (FITTA), 2019 and the Industrial Enterprises Act, 2020 (IEA). FITTA also applies to foreign investment in the form of lease financing and investment in the secondary market through venture capital funds (VCF), including the opening of branch offices, with the approval of the relevant authority after completing all procedures required for foreign direct investment. Further, FITTA has introduced the facility of the Single Point Service Centre from which an investor can avail various services, such as approval of foreign investment, registration, visa-related services and work permits.

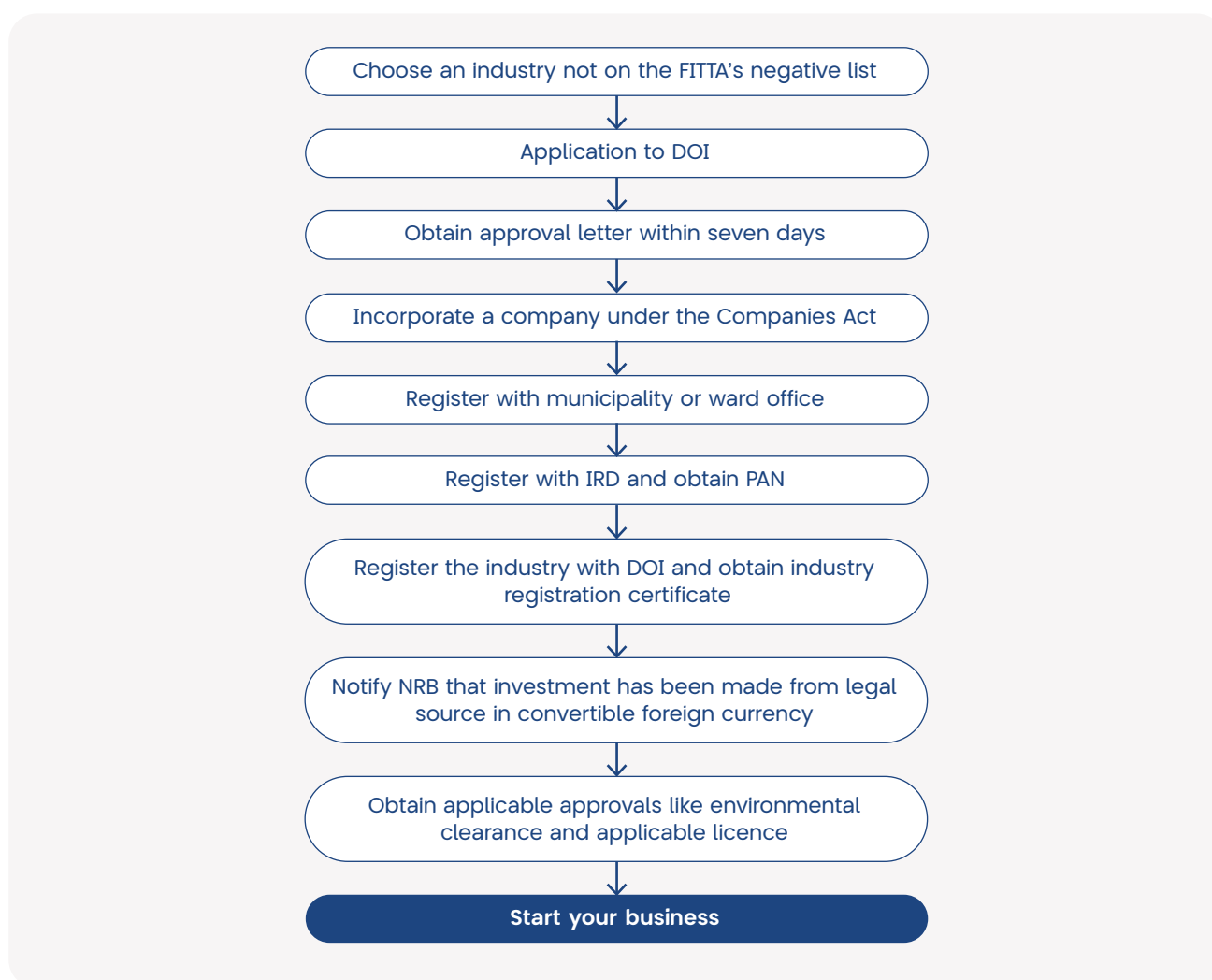
Foreign investment can be made in Nepal in the following forms:

- investment in shares of a company in convertible foreign currency;
- reinvestment of earnings from foreign investment;



- lease financing in airlines, ships, plant, machinery, construction and other similar equipment up to the prescribed threshold;
- investment in listed securities through the secondary market by VCF;
- investment through the acquisition of shares or assets of a company registered in Nepal;
- investment in securities issued by public or listed companies in foreign capital markets;
- investment made through technology transfers in an industry established in Nepal;
- investment through establishment and expansion of industry in Nepal; and
- setting up a branch office.

Any person desirous of setting up a profit motive company with foreign investment may set up a company with the following procedures:



## Raising Foreign Currency Loans

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

FITTA does not have provisions for companies with foreign investment to raise money as loans from their parent companies or other associated companies. Such companies can borrow money from local sources.

## Negative List of Foreign Investment

Foreign investment is permitted only in such sectors classified as 'industries' by the IEA with the exception of the following industries which are included in the 'negative list' of the FITTA:

- primary agriculture sectors such as fish farming, animal husbandry, horticulture and others;
- small and cottage enterprises;
- personal service businesses such as hair salons, tailoring, driving, etc.;
- arms and ammunition industry, industry producing biological and chemical weapons, industries related to explosives, gunpowder, radioactive materials and atomic energy;
- real estate businesses (excluding construction industries), retail businesses, internal courier services, local catering services, money exchange, remittance services;
- travel agencies, trekking agencies, expedition service providers, home stays and rural tourism;
- mass-media businesses such as newspapers, radio, television and online news;
- movies in the national language;
- businesses and organisations providing management, accountancy, engineering and legal consultancy services and language training, music training and computer training;
- businesses with more than 51% foreign investment in consultancy services; and
- ride-sharing businesses with more than 70% foreign investment.

## Sector-Specific Foreign Ownership Caps

Certain industries allow FDI under listed caps:

Sector	Maximum foreign ownership
Telecoms	80%
Domestic airlines	49%
International airlines	80%
Flying schools	95%
Aircraft repair and maintenance facilities	95%
Insurance companies	80%
Ride-sharing businesses	70%

## Step 1: Approval of the Department of Industry

Permission is not granted for making foreign investment in the industries set out in the 'negative list' of the FITTA. However, permission may be granted for the transfer of technology in such industries.

An approval letter will be provided within seven days from the date of the application if the application is complete in all respects.

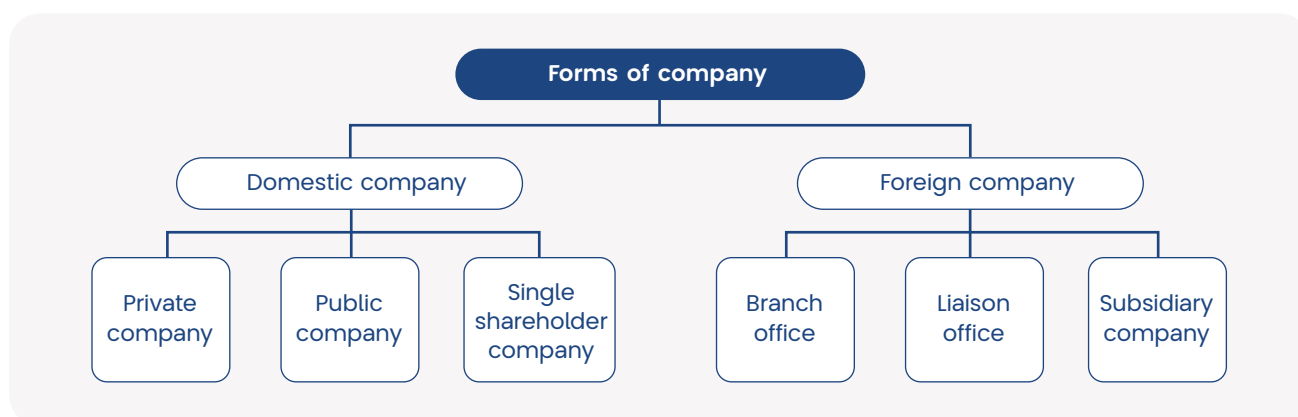
Where an industry that has already obtained approval for foreign investment wishes to reinvest the earned profits in the same industry or in any industry other than those included in the 'negative list', it is not necessary for it to re-obtain approval for foreign investment. However, approval must be sought where a licence or special permission is required in connection with the registration of an industry, company, tax or any other business.

The following documents must be submitted for approval of FDI:

- a. investment report and project report (two copies);
- b. joint venture agreement, if more than one investor exists;
- c. copy of the personal bio-data, if the investor is an individual;
- d. legal documents of the investor, profile and board resolution where the foreign investor is a company;
- e. legal documents, partnership agreement, profile of the firm and partners' decision where the foreign investor is a partnership firm;
- f. in the case of a non-resident Nepali (NRN), documents to support the NRN status;
- g. charter documents and documents confirming the identity of directors where the foreign investor is an international organisation;
- h. power of attorney (POA) where the foreign investor cannot be present in person. Where a POA is issued, the responsibilities and period of validity of the POA have to be specified in the POA as required by the law; and
- i. any other documents that are requested by the approving authority.

## Step 2: Company Registration

After receiving approval for foreign investment, investors will need to register an appropriate form of company in the OCR.



## Domestic Company

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

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

- a. Incorporating a Nepali company with 100% foreign equity, operating it as a wholly owned subsidiary or with more than one foreign equity partner.
- b. Incorporating a joint venture company with a Nepali partner and operating it as a private company or a non-listed public company.
- c. Incorporating a joint venture company with a Nepali partner, and/or with the general public, and operating it as a public company listed on the stock exchange.

### a. Private Company

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

### b. Public Company

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

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

### c. Single Shareholder Company

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

## Domestic Company Registration Procedure

Investors should make an application to OCR in the format prescribed and submit the following documents for the incorporation of a company with foreign promoters and shareholders under joint investment or as a wholly owned subsidiary:

- the memorandum of association of the proposed company;
- the articles of association of the proposed company;

- for a public company, a copy of the agreement, if any, entered into between the promoters prior to the incorporation of the company;
- for a private company, a copy of the consensus agreement, if any, entered into;
- where prior approval or licence has to be obtained under the prevailing law prior to the registration of a company carrying on any particular type of business or transaction pursuant to the prevailing law, such approval or licence;
- a copy of the permission obtained under the prevailing law to make investment or continue business or transactions in Nepal;
- a copy of the approval of the Department of Industries and the joint investment agreement, for an industrial company under joint investment;
- where the promoter is a foreign person, evidence of their country of citizenship; and
- where the promoter is a foreign company or body, a certified copy of the incorporation of such company or body and the charter documents relating to the incorporation.

### Step 3: Registration with IRD, DOI and Local Authority

- Following company registration, the entity (business) will be registered with the local authority.
- The entity thereafter shall obtain a PAN and also register for VAT, if applicable, with the Inland Revenue Department.
- The industry must also be registered with the DOI and an industry registration certificate obtained.

### Step 4: Inject Capital in the Nepali Entity

The foreign investor, on obtaining approval of the foreign investment in an industry from the approving authority, must inject the investment committed within one year in the following tranches after obtaining approval from Nepal Rastra Bank:

Investment committed	Percentage of investment
Minimum investment of NPR 20 million	25% of the total amount
From NPR 20 million to NPR 250 million	15% of the total amount
From NPR 250 million to NPR 1 billion	10% of the total amount
Above NPR 1 billion	5% of the total amount

Notwithstanding the above, the foreign investor has to make 70% of the approved foreign investment prior to the commencement of commercial operations or commencement of the transactions, with the remaining 30% made within the following two years. However, where investment is made by the acquisition of the shares in an industry, the investment has to be made within one year of the approval of the foreign investment.

Likewise, for the reinvestment of earnings from foreign investment, at least 10% of the minimum investment amount should be reinvested.



## Step 5: Start your Business

Obtain other necessary approvals, such as environmental clearance and relevant licences, and then start your business.

### Foreign Company

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

Foreign companies must register with the OCR within 30 days of the establishment of a place of business in Nepal or the appointment of a resident agent to deal with matters on behalf of the company. The registration procedure of a foreign company is described in the 'Opening a Branch' section below.

### Opening a Branch

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Foreign companies may operate in Nepal by opening a branch office or liaison office, subject to approval from a competent government authority.

#### a. Branch Office

Following approval from a competent government authority, an application in the prescribed form should be submitted to the OCR to register the branch office, along with the appropriate fee.

#### b. Liaison Office

A liaison office can be established by a foreign company in Nepal under the Companies Act. At the time of registration, the OCR may direct the foreign company to seek a specific authorisation. For instance, in the case of a power company, permission must be obtained from the Department of Electricity Development (DOED) to operate in Nepal.

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

Following approval, an application to the OCR in the format prescribed in annexure 29 of the Companies Act along with the following documents should be submitted for the establishment of a liaison office or branch office:

- copies of the charter, certificate of incorporation, memorandum of association and articles of association of the company, together with a Nepalese translation thereof;



- full name and address of the registered office and principal place of business of the company, date of incorporation, description of the paid-up capital and major objectives of the company;
- names and addresses of directors, managers, company secretaries or main officers of the company and description of their citizenship;
- name and address of the person residing or staying in Nepal, who is authorised by the company to receive, on its behalf, any summons, notices, etc. issued in the name of the company;
- full address of the principal place where the company carries on its transactions or business in Nepal and of the office of the company;
- details of the proposed investment and transactions to be made in Nepal;
- the proposed date of commencement of transactions in Nepal;
- a declaration made by a director of the company or his/her representative, on behalf of the company, that the matters contained in the returns submitted by the company are true and correct; and
- power of attorney as referred to in section 157 of the Companies Act.

## Automatic Route for Foreign Investment in Nepal

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To simplify and expedite the foreign investment process, the government of Nepal introduced an automatic approval mechanism for foreign direct investment (FDI). This allows foreign investors to obtain approvals for company registration, industry registration and foreign investment without undergoing lengthy departmental or board-level screening, provided certain conditions are met.

### Sectors Eligible for Automatic Route of FDI

Industries falling under the following categories can use the automatic approval route:

- energy-based industries (e.g. solar, biomass, biogas);
- agriculture and forest-based industries (e.g. tea, coffee, herbal processing, rubber, cold storage);
- infrastructure industries (e.g. parking facilities, warehouses, waste water treatment);
- tourism industries (e.g. hotels, resorts, adventure tourism, theme parks);
- information technology (IT) industries (e.g. software development, data centres, BPO/KPO, IT parks) (notably, minimum capital thresholds do not apply to IT sector investments under the automatic route);
- service-oriented industries (e.g. health, education, courier, sanitation); and
- manufacturing industries (e.g. textiles, consumer goods, medical equipment).

### Investment Threshold for Automatic Route

Foreign investment up to NPR 500 million is eligible for automatic approval under the sectors above. Investments exceeding this threshold, or in industries outside the list, require traditional approval as prescribed above.

## Royalty Threshold

### Ceiling on Royalty and Other Fees

A ceiling for the repatriation of royalty and other fees of up to 5% of the total local sales and up to 10% of total export sales applies. It has been clarified that royalties may also be computed as a percentage of net profits up to 15% and 20%, from local and export sales respectively. Where a foreign investor has entered into multiple agreements for royalties and technical and management fees, the ceiling for total royalties and fees that can be repatriated must not exceed the percentage prescribed of the sales amount. The ceiling for royalties and other fees is set out in the tables below:

#### a. Ceiling for royalties and other fees for all types of technology transfer:

Royalty	Local sales	Exports sales
Total amount or total sales amount	up to 5% of total sales (excluding VAT)	up to 10% of total sales (excluding VAT)
If the royalty is based on net profits	up to 15% of net profits	up to 20% of net profits

#### b) Ceiling for royalties and other fees for use of trademarks:

Local sales	Exports sales
up to 2% of total sales (excluding VAT) for alcohol and tobacco industry	up to 5% of total sales (excluding VAT) for alcohol and tobacco industry
up to 3% of total sales (excluding VAT) for other industries	up to 6% of total sales (excluding VAT) for other industries

## Issue of Identity Cards to Foreign Investors

The foreign investor shall be classified on the basis of the amount invested and identity cards issued to its authorised representatives.

Investment committed	Classification
a) From NPR 20 million to NPR 250 million	General foreign investor
b) From NPR 250 million to NPR 1 billion	Special foreign investor
c) Above NPR 1 billion	Most special foreign investor

## Exit from the Industry

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A foreign investor can exit from its investment in an existing industry by either of the following approaches:

### Voluntary Liquidation of a Company

A company may be voluntarily liquidated under section 126 of the Companies Act. Where a voluntary liquidation is not possible or desired, a company may still be liquidated under the Insolvency Act, 2006 where certain circumstances are met. Voluntary liquidation of a company requires the passing of a special resolution at a general meeting, or it may be liquidated pursuant to satisfying the conditions stipulated in the company's MoA/AoA.

### Sale of Shares

Another approach for exit is to sell the shares in an existing industry to a local investor or another foreign investor, for which approval from the DOI should be obtained. The sales proceeds may be repatriated after obtaining approval from the NRB for depositing the capital gains tax on the transaction, if any.

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

## Purchasing Shares in an Existing Company

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Foreign investors can participate in Nepal's markets by investing in equity shares of Nepali companies through specialised investment funds such as venture capital funds (VCFs) and private equity funds (PEFs), in accordance with regulations laid out by the Securities Board of Nepal (SEBON). These funds must be registered, managed by licensed professionals and comply with strict governance, reporting and disclosure requirements. VCFs typically support early-stage start-ups, while PEFs invest in more mature companies, often acquiring significant stakes through negotiations. Minimum fund size is set at NPR 150 million, with a minimum investment of NPR 5 million per investor, and these funds generally operate for a term of at least five years.

Investors can join these funds or participate in the secondary market through licensed brokers, provided they meet SEBON's compliance standards. Key points include:

- Returns (dividends, capital gains, principal) can be repatriated in convertible foreign currency, following FITTA 2019 and Nepal Rastra Bank (NRB) regulations.
- Tax clearance and regulatory filings are required prior to repatriation.
- Hedge funds, which use complex strategies, are not specifically regulated by SEBON in Nepal.

## Purchasing Real Estate Property in Nepal

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

## Land Acquisition

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

### 1. Private land

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

### 2. Forest land

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

### 3. Government (non-forest land)

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

## Public Private Partnership and Investment Act, 2019

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

### Infrastructure Covered Under the Act

Infrastructure, e.g. roads, tunnels, bridges, canals, dams, sewerage, cable cars, railways, tramways, metro rail, mono rail, sky rail, trolleybus, rapid bus transit, dry ports, docks, airports, hospitals, cold stores, stadiums, entertainment parks, waste treatment plants, telecommunication, agriculture, education and other infrastructure of a similar nature are covered by this law.

### Forms of Private Investment

Private investments can take any of the following forms:

- |   |   |
|---|---|
| a. build and transfer (BT);                 | f. lease, build, operate and transfer (LBOT); |
| b. build, operate and transfer (BOT);       | g. develop, operate and transfer (DOT);       |
| c. build, own, operate and transfer (BOOT); | h. manage, operate and transfer (MOT); or     |
| d. build, transfer and operate (BTO);       | i. re-establish, operate and transfer (ROT).  |
| e. lease, operate and transfer (LOT);       |   |



## Licence Period

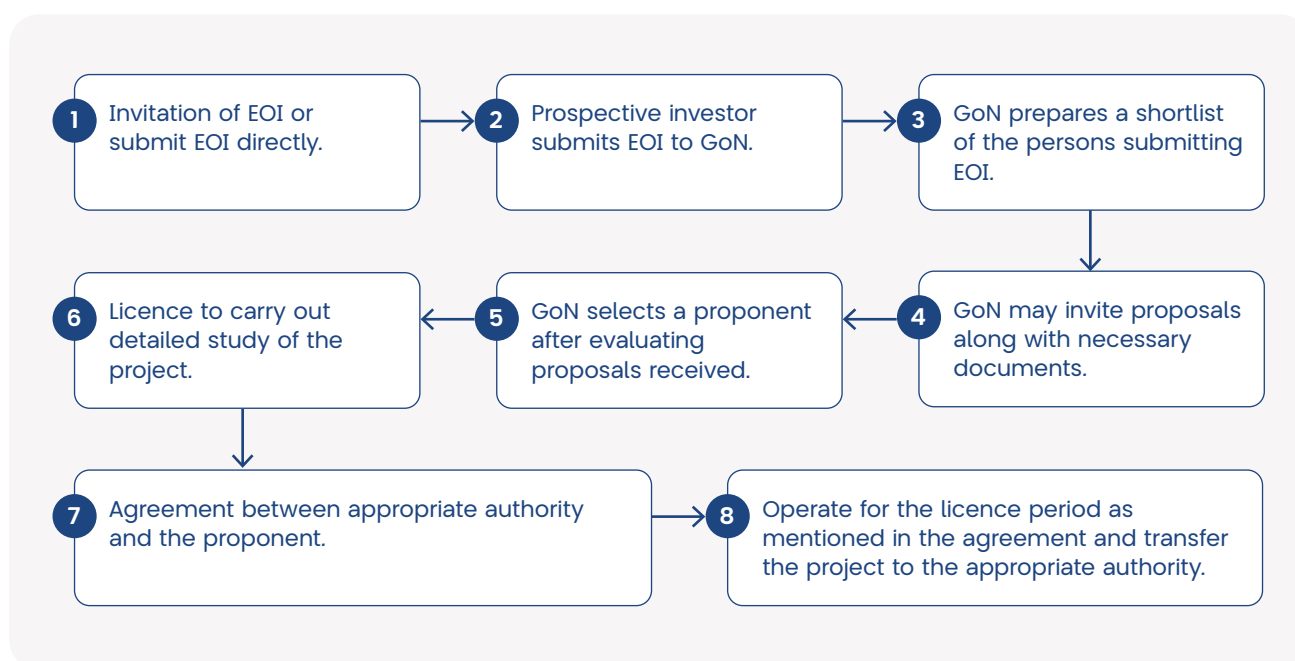
The licence period shall be as specified in the respective agreement. In the former Private Financing in Build and Operation Infrastructure Act, 2006, the licence period was for a maximum of 30 years which could be extended for an additional period of five years under exceptional circumstances. However, the new Public Private Partnership & Investment Act, 2019 is silent regarding the licence period.

## Invitation of EOI by GoN

The GoN may, if it deems it appropriate to implement any project in public private partnership (PPP), invite private developers or operators through an expression of interest (EOI) to participate in the infrastructure project in accordance with the provisions specified in the law.

## Process

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



This process is set out in more detail below:

- The appropriate authority (Investment Board, GoN, state government or local government) will shortlist projects in which a PPP is sought.
- The list of projects will be published and an EOI is invited for the study permission, survey or implementation of the project. Alternatively, any entity seeking to implement a project may submit their EOI directly to the appropriate authority (without having received any public notice).
- An entity seeking to submit an EOI should provide the required details within the stipulated time frame stated in the notice.
- The appropriate authority, after the preparation of a shortlist of potential candidates, will publish a public notice and invite proposals.
- The appropriate authority will, after evaluating the technical proposal, select the proposed royalty, the financial proposal (including details of tariffs to customers) and the proponent.

- The appropriate authority will grant a licence to carry out a detailed study of the project and will obtain a performance bond from the proponent.
- The entity enters into a PPP agreement with the respective authority. Such an agreement includes details of the project, commencement and completion dates, facilities, exemptions, the licence period, milestones, a timetable, technical standards and quality, conditions for transferring the project to the appropriate authority, royalties and other relevant terms.

## **Industrial Enterprises Act, 2020**

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To establish an industry under the Industrial Enterprises Act, 2020 (IEA) an application form must be submitted in the prescribed form to the DOI (for registration of industries) along with the documents relating to the approval of the foreign investment, incorporation of the company, registration in the municipality, PAN certificate, scheme of arrangements, etc. Once the DOI is satisfied that all the prescribed documents and information have been received and that all the specified procedures for registration and any directive laws have been complied with, an industry will be registered and an industry registration certificate will be issued to the applicant. If the activities have any environmental impact, the applicant must conduct an EIA/IEE test before commencing operations (see further details below).

### **Environmental Clearance**

Prescribed industries that have an environmental impact (like manufacturing, forest-related activities, tourism, water, natural resources, energy and urban development) have to conduct an environmental impact assessment (EIA) or an initial environmental examination (IEE).

### **Environmental Impact Assessment**

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

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

### **Initial Environmental Examination**

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

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

## Classification of Industry

By size	By nature
<ol style="list-style-type: none"><li>1. Micro</li><li>2. Cottage</li><li>3. Small</li><li>4. Medium</li><li>5. Large</li></ol>	<ol style="list-style-type: none"><li>1. Energy-based</li><li>2. Manufacturing</li><li>3. Agro forest-based</li><li>4. Mineral</li><li>5. Construction</li><li>6. Tourism</li><li>7. Information technology: Information transmission and IT services</li><li>8. Service-oriented</li></ol>

## Corporate Social Responsibility (CSR)

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

- disaster prevention, preparedness and rescue initiatives;
- supplying medicine and medical equipment to community health organisations, running health awareness programmes, organising health camps and supporting other health-related activities;
- safeguarding and conserving Nepali art, cultural heritage and significant monuments;
- providing skills development and income-generating opportunities for disadvantaged groups, such as low-income individuals, people from remote areas, rural women, persons with disabilities, minority communities and marginalised populations;
- supporting education through scholarships for community schools and universities, distributing educational materials and equipment and undertaking other education sector development projects;
- tackling environmental issues through pollution control, waste management, tree planting, water source conservation and promoting alternative energy and other environmental initiatives;
- producing and broadcasting documentaries and awareness campaigns that address social issues like smoking and alcohol abuse; and
- building and maintaining rural infrastructure such as drinking water systems, roads, drainage and sewage facilities, public rest stops, old age homes, playgrounds, religious and community buildings, orphanages, parks, meditation centres, bus parks and stands and other facilities that benefit social welfare.

At least 50% of the allocated CSR funds should be spent in communities impacted by the industry.

# Taxation

## Nepalese Tax System

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The GoN raises its revenue via various direct taxes (such as income tax, wealth tax, local taxes) and indirect taxes (such as VAT, excise duty, customs duty). All businesses encounter most of these taxes while operating in Nepal.

Income tax is levied on income accrued or received from a business, investment, employment, windfall gains and any other sources in the course of operating a business. All individuals and legal entities with assessable income are required to register with the income tax authorities of Nepal (Inland Revenue Department/Office (IRD/IRO)), obtain a permanent account number (PAN), and file an income tax return annually. The IRD is the primary tax authority in Nepal. Both individuals and companies are required to follow a uniform income year that runs from 16 July to the following 15 July.



Other than these, indirect taxes like value added tax (VAT) and customs and excise levies also impact doing business and decision-making in Nepal, though these are ultimately passed on to customers. The regulatory body for administering indirect taxes, such as VAT and excise duty, is also the IRD, whereas the Department of Customs regulates customs duty collection and its administration.

Different laws dictate the provisions for the implementation of these taxes. Some key takeaways are as follows:

- a. The tax liability of residents and non-residents is clearly defined.
- b. Global income of a resident, whether an individual or a company, is taxable in Nepal.
- c. Specific provisions apply for taxing capital gains.
- d. There are prescribed procedures for the granting of credit for international tax.
- e. Concessions and incentives are defined.
- f. General anti-avoidance provisions and income splitting rules have been introduced.
- g. Tax administration, compliance and payment procedures are clearly defined and well-documented.
- h. Nepal has concluded double taxation avoidance agreements (DTAA) with 11 different countries.

## Corporate Tax

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Tax is levied under the Income Tax Act (ITA), which provides for the imposition and collection of tax on the income of entities.

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

For the purpose of the ITA, entities include any partnership firm, trust or company, public or international association established under bilateral/multilateral treaties with a foreign government, or any local bodies of a foreign government and permanent establishments of non-resident persons included above.

'Company' means a body corporate or a company formed under the Companies Act, 2006, and includes a foreign company and other institutions such as a unit trust, a cooperative society, a group of persons other than a partnership with fewer than 20 partners and a proprietorship firm.

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

A distribution of profits by a firm to its partners is taxed as a dividend at a rate of 5%, which is the final withholding tax.



## Tax Rates in Nepal

Particulars	FY 2025-26		
	Normal rate	Rebate	Applicable rate*
1. Normal business	25%	–	25%
2. Entities operating as special industry under section 11 for the whole year	25%	20%	20%
3. Entities constructing and operating ropeways, cable cars or sky bridges	25%	40%**	15%**
4. Entities constructing and operating roads, bridges, tunnels, railways and airports	25%	50%**	12.5%**
5. Entities operating trolleybuses or trams	25%	40%**	15%**
6. Entities with export income from a source in Nepal	25%	20%	20%
7. Entities involved in the construction or operation of public infrastructure and to be transferred to the GoN or involved in the construction of hydropower plants and its generation and transmission	25%	20%	20%
8. Banks and financial institutions (commercial banks, development banks and finance companies)	30%	–	30%
9. Entities carrying out general insurance business (non-life insurance)	30%	–	30%
10. Entities involved in financial transactions	30%	–	30%
11. Entities engaged in petroleum business under the Nepal Petroleum Act, 2040	30%	–	30%
12. Entities engaged in the business of cigarettes, tobacco, cigars, chewing tobacco, pan masala, alcohol and beer	30%	–	30%
13. Entities engaged in telecommunications and internet services	30%	–	30%
14. Entities engaged in money transfers	30%	–	30%
15. Entities engaged in capital market business, securities business, merchant banking, commodity futures market, securities and commodity brokers	30%	–	30%

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

\*\*The above rebate and applicable tax rates with respect to entities constructing and operating ropeways, cable cars, sky bridges, roads, bridges, tunnels, railways, airports, trolleybuses and trams are applicable only up to 10 years from the date of commercial operations.

Note: The definition of 'special industries' has been extended by Finance Act, 2025 to include hotels, resorts and the information technology industry.

## Annual Tax Returns

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

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

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

## Advance Tax

All entities must pay income tax in three advance instalments during an income year. The payment deadlines are 14 January, 13 April and 15 July.

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

Particulars	Due date	Percentage of estimated tax liability
First instalment	14 January	40% of the total estimated tax liability for the year
Second instalment	13 April	70% of the total estimated tax liability for the year
Final instalment	15 July	100% of the total estimated tax liability for the year

## Tax Payments and Refunds

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

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

## Withholding Taxes

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

Withholding tax rates vary from 1.5% to 25% depending on the nature of payments. Withholding taxes are either advance withholding taxes or final withholding taxes based on the nature of the payments.

## General Anti-Avoidance Rules

The ITA contains general anti-avoidance rules which give authority to the IRD to:

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

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

## Transfer Pricing

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



The IRD may:

- re-characterise 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.

The IRD issued the Transfer Pricing Directive in 2024, including the criteria for applicability of transfer pricing provisions, methods for arm's-length price (ALP) determination, steps for TP assessment and documentation required to be maintained by the persons to whom TP is applicable.

According to the Transfer Pricing Directive, 2024 (2081), all cross-border transactions involving associated enterprises (defined by control or ownership exceeding 50%) are subject to documentation requirements where the cumulative value of such transactions exceeds NPR 100 million in any income year.

Taxpayers must prepare and maintain comprehensive TP-related documents and reports containing details as outlined in Schedule 1 of the directive, which should be certified by an auditor. Additionally, the disclosures detailed in Schedule 2 of the directive must be certified by an auditor and filed along with the annual income tax return from FY 2024-25 (FY 2081-82) onwards.

It is essential for businesses engaging in related-party transactions to maintain contemporaneous documentation supporting the nature and pricing of such dealings. This includes a detailed analysis demonstrating that their transactions adhere to the arm's-length standard, along with supporting calculations, contracts and benchmarking studies. Failure to comply with these documentation requirements can result in adjustments by the tax authorities, potential penalties and prolonged disputes during tax audits.

Additionally, the authorities may require disclosures or supporting evidence during regular assessments or in response to specific enquiries. Companies are encouraged to establish robust internal controls over their transfer pricing processes to ensure accuracy and consistency in reporting.

The TP documentation must be retained for a minimum of five years from the end of the relevant income year.

### **TP Audit and Certification**

Where total cross-border related-party transactions exceed NPR 500 million, the taxpayer is required to obtain a TP audit certificate from an independent chartered accountant (other than the statutory and tax auditor), registered with ICAN, with no fewer than five years of relevant post-qualification experience. Where annual cross-border related-party transactions are less than NPR 500 million, certification can be given by the statutory and tax auditor of the company.

### **Double Taxation Avoidance Agreement (DTAA)**

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

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

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

## Personal Income Tax

Tax on individuals is levied under the Income Tax Act (ITA) and is based on the individual's residence status in Nepal. Resident individuals are subject to tax on their worldwide income derived from employment, business or investment in Nepal, while non-residents are subject to tax on their net income earned or sourced in Nepal.

A person is deemed resident in Nepal if they have resided in Nepal for a period of 183 days or more in any 12-month period, or their normal place of abode is in Nepal. Dual residence is not recognised for the purposes of Nepalese tax.

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

### Tax Rates for Residents

The applicable tax rates for individuals resident in Nepal are as follows:

Tax banding	Tax rates for FY 2025-26			
	Resident		Individual (NPR)	
				Couple (NPR)
a. First slab			500,000	1%*
b. Second slab			200,000	10%
c. Third slab			300,000	20%
d. Fourth slab			1,000,000	30%
e. Fifth slab			3,000,000	36%
f. Income above NPR 5,000,000			>5,000,000	39%

\*1% is the social security tax to be deposited in a separate revenue account (11211). However, a taxpayer registered as a sole proprietorship or in receipt of pension income or income from a contribution-based pension fund or social security fund (SSF) is not subject to social security tax.





## Non-Resident Income Tax

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A non-resident person is taxed at a flat rate of 25% on the remuneration earned from a source in Nepal. However, income from transporting passengers, mail or cargo by sea or air that is embarked in Nepal (online) is taxed at 5%. Offline services (i.e. services that do not originate in Nepal) are taxed at a rate of 2%.

## Capital Gains Tax

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In Nepal, there is no wealth tax; however, capital gains taxes are applicable on the disposal of business assets and liabilities under the Income Tax Act, 2002.

Net gains from the disposal of business assets or liabilities of a business are taxable as business income. Generally, gains are calculated as proceeds from the capital transaction less the tax basis in the relevant property. In the language of the ITA, the gain from the disposal of an asset or liability is calculated as the amount by which the sum of the incomings of the asset or liability exceeds the outgoings of the asset or liability at the time of disposal and is reduced by the following losses:

- the total of all losses suffered from the disposal of business assets or liabilities;
- any unrelieved net loss out of any other business losses; and
- any unrelieved net loss for a previous income year out of losses of any business.

A loss on the disposal of an asset or liability with a foreign source can be claimed against a gain only to the extent that the amount includes gains on the disposal of assets or liabilities with a foreign source. A non-resident is taxed only on gains from the disposal of assets or liabilities sourced in Nepal; however, based on a recent court ruling and amendments in the law, non-residents are also taxed on gains which do not have a source in Nepal.

Net gains derived by resident individuals in respect of the disposal of shares listed on the stock exchange are subject to tax at the rate of 7.5% for short-term capital gains (for shares held up to 365 days) and at 5% on long-term capital gains (for shares held for more than 365 days). Rates of 10% and 25% apply for resident entities and others, respectively. For unlisted shares, tax at the rates of 10%, 15% and 25% applies for resident individuals, resident entities and others, respectively.

Net gains derived by individuals from the disposal of land and buildings are subject to tax at the rate of 5% if owned for more than five years and at 7.5% if owned for up to five years. For persons other than individuals, net gains on the disposal of land and buildings are subject to tax at 10%, irrespective of the length of ownership.

Land and buildings owned in Nepal are subject to property tax levied by the local government (based on predetermined rates for the areas in which the properties are located) on an annual basis.

## Inheritance and Gift Tax

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An asset disposed of by way of transfer in any manner other than purchase and sale, within three generations, is excluded from the scope of income tax.

Gifts received in respect of the business are included in the business's income and taxed accordingly. Similarly, windfall gains are taxed and withheld at a rate of 25%, and this is a final withholding tax.

## Value Added Tax

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Value added tax (VAT) in Nepal is governed by the Value Added Tax Act, 1996, and the VAT Regulation, 1997.

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

VAT applies to the following transactions:

- supply of goods or services within the state of Nepal;
- import of goods or services inside the state of Nepal; and
- export of goods or services from the state of Nepal.

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

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



### Requirement for VAT Registration

VAT can only be collected by a person who is registered for VAT purposes. Section 10 of the Act sets out the conditions for compulsory registration for VAT purposes.

Compulsory registration arises only when the turnover of a person exceeds the following limits:

- For a person dealing only in goods: NPR 5 million during the last 12-month period;
- For a person dealing only in services: NPR 3 million during the last 12-month period; and
- For a person dealing in goods and services: NPR 3 million during the last 12-month period.

### Rates of VAT

The rates of VAT are as follows:

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



## Tax Credit

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

A refund is also available for VAT paid on certain exempt supplies, such as exports.

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

## Requirements under VAT

VAT registrants are required to:

- submit VAT returns (and pay any VAT) by the 25th day of the following month;
- provide their customers with a tax invoice;
- maintain a purchase book, sales book and VAT account;
- keep their VAT records for a period of seven years; and
- inform the IRD of changes to the business, including a new address, telephone number or a reorganisation of a partnership, within 15 days.

Government bodies or entities in which the government has full or partial ownership, while making payment for contracts, services or goods procured, must deposit 30% of the VAT amount directly to the IRD on behalf of the supplier, and only the remaining 70% VAT amount is paid to the supplier.

## Capital Transfer Tax

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Dividends distributed by resident companies and partnership firms to resident and non-resident persons are subject to a final withholding tax at a rate of 5%. These dividends are not taxed in the hands of the recipient, and no withholding is applicable on the distribution of dividends from dividend income. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by including them in the income of the beneficiary. Distributions of dividends, derived after final withholding tax, are exempt from tax.

Tax is levied at a rate of 5% on the income remitted abroad by any non-resident person's foreign permanent establishment situated in Nepal in any income year.

## Special Tax and Duties

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### Special Economic Zones

The GoN aims to attract domestic and foreign investment by establishing special economic zones (SEZ) in potential places for exportable industries. The GoN can prescribe any export processing area, special business area, tourism or entertainment area or any other area of Nepal as an SEZ.

Certain privileges are provided in the SEZ laws, in terms of exemptions, facilities and tax benefits, to industries located in an SEZ, some of which are:

- a. special treatment for goods or services produced in an SEZ;
- b. no nationalisation is made;
- c. discount on the lease or rent of land or buildings;
- d. exemption from income taxes, VAT, excise duty, customs duty and local taxes;
- e. selling of raw materials or products to any industries in an SEZ by any other industries will be deemed as export and such industries can enjoy the facilities available for export;
- f. the foreign investment may be repatriated;
- g. relaxation in visa provisions;
- h. use of bonded warehouses; and
- i. subcontracting within industries and accelerated rates of depreciation are available, along with such other facilities as may be specified by the GoN from time to time.

### Incentives in Income Tax Rates

The tax laws provide various incentives to stimulate industrial growth and development. The key tax incentives are set out below which are, inter alia, designed to attract inward investment.

In the table that follows, 'AR' denotes 'applicable rate' which should be used in the context of special industries as the rate after the 20% concession given under section 11(2Kha). 'NR' denotes 'normal rate' in the context of industries and businesses other than special industries.

#	Industry	Tax rates and incentives
<b>1</b>	<b>Concessions based on employment provided</b>	
	Special industries and information technology industries that provide direct employment to 100 or more Nepalese citizens throughout the year	*10% of AR/NR
	Special industries and information technology industries that provide direct employment to 300 or more Nepalese citizens throughout the year	*20% of AR/NR
	Special industries and information technology industries that provide direct employment to 500 or more Nepalese citizens throughout the year	*25% of AR/NR
	Special industries and information technology industries that provide direct employment to 1,000 or more Nepalese citizens throughout the year	*30% of AR/NR
*An additional 10% concession is provided if direct employment is provided to 100 or more Nepalese citizens, including at least 33% of whom are women, disadvantaged people or people with disabilities.		
<b>2</b>	<b>Concessions to special industries based on geographical locations</b>	
	Special industries established in very undeveloped areas	90% of AR (for 10 years from the date of commercial production)
	Special industries established in undeveloped areas	80% of AR (for 10 years from the date of commercial production )
	Special industries established in less developed areas	70% of AR (for 10 years from the date of commercial production)
	Income derived by special industries established in Karnali province and hilly districts of the far western province, providing direct employment to more than 100 Nepalese citizens	100% tax exemption for the first 15 years from the date of commencement of commercial production or transaction
<b>3</b>	<b>Concessions to special industries based on investment amount</b>	
	Special industries and tourism industries (except casinos) established with a capital investment of NPR 1 billion or more and providing direct employment to more than 500 persons throughout the year	100% exemption for the first five years from the date of operation of the business and 50% concession for the next three years
	Existing special and tourism industries (except casinos) that increase their installed capacity by at least 25% to reach a capital of NPR 2 billion, and provide direct employment to more than 300 persons throughout the year	100% concession for the first five years and 50% concession for the next three years on income generated due to increased capacity
	Industries related to the tourism industry or international flight operation established with a capital investment of more than NPR 1 billion	100% concession for five years from the commencement of business and 50% concession for the next three years



#	Industry	Tax rates and incentives
	Industries related to the tourism industry or international flight operation established with a capital investment of more than NPR 3 billion	100% concession for 10 years from the commencement of business and 50% concession for the next five years
	Industries related to the tourism industry or international flight operation established with a capital investment of more than NPR 5 billion	100% concession for 15 years from the commencement of business
<b>4</b>	<b>Concessions to industries established in SEZs</b>	
	Industries established in SEZs in mountain areas or hill areas by the GoN	100% exempt up to 10 years from date of operation of business and 50% rebate in subsequent years
	Industries established in SEZs other than the locations above	100% exempt up to first five years from date of operation and 50% rebate in subsequent years
	Dividends distributed by industries established in SEZs	100% exempt for first five years and 50% rebate in subsequent three years
	Income derived by foreign investors from investments in SEZs (source of income: use of foreign technology, management service fees and royalties)	50% of NR
	Special industries established and operated in industrial districts and industrial villages	50% rebate on AR for the first three years from the production date after establishment or relocation and 25% rebate for the next five years
<b>5</b>	<b>Concessions based on establishment in special areas</b>	
	Entities established in zoological, geological and biotech parks and IT parks engaged in software development, data processing, cyber cafes or digital mapping	75% on NR
	Special industries in operation after relocation from the Kathmandu valley to outside the valley	100% exemption for three years and 50% rebate for the next two years from the date of such relocation and operation
<b>6</b>	<b>Concessions related to hydropower projects</b>	
	Persons or entities with a licence to generate, transmit or distribute electricity are provided a concession if the commercial operation commences before mid-April 2028 (Chaitra end 2084) (provisions apply for electricity generated from solar, wind or organic material)	100% exempt up to 10 years and 50% rebate in the subsequent five years from the date of commercial production

#	Industry	Tax rates and incentives
	Reservoir or semi-reservoir-based hydropower projects generating above 40MW of energy, and in the case of lower coastal hydropower projects, operated in tandem and managing financial closure by mid-April 2029	100% exempt for the first 15 years from the date of commencement of commercial transactions and a 50% rebate for the next six years
<b>7</b>	<b>Concessions to petroleum industry</b>	
	Persons involved in the exploration and extraction of minerals, petroleum products, natural gas and fuel, where commercial operations start by April 2024	100% exempt up to seven years and 50% rebate in the subsequent three years
<b>8</b>	<b>Other specific concessions</b>	
	On capitalisation of accumulated profit through bonus shares by special industries, information technology industries or industries related to tourism for expansion of the capacity of the industry ('information technology industries' means the industries related to technology parks, information technology parks, biotech parks, software development, data processing, digital mapping, business process outsourcing, data mining and cloud computing)	No tax on dividend distributions
	Export income earned in foreign currency from business process outsourcing, software programming and cloud computing services, including service income based on information technology	Eligible for 50% tax exemption on applicable tax rate from such export income earned in foreign currency up to FY 2027-28 (fiscal year 2084/85)
	Income of manufacturing industries, tourism service industries and hydropower generation, distribution and transmission industries listed in the capital market and entities mentioned in section 11 (3 Ga).	15% on AR/NR
	Private companies with a capital of NPR 50 crore or more that operate by converting into a public company	10% on AR/NR for three years from the date of conversion
	Domestic tea production and processing industries, dairy industries, garments industries	50% on AR
	Health institutions operated by a community-based organisation	20% on NR
	Micro entrepreneurial industries	100% on NR for seven years from the date of operation
	Micro entrepreneurial industries under the entrepreneurship of women	100% on NR for 10 years from the date of operation
	Industries established in very undeveloped and undeveloped areas producing brandy, wine and cider from fruits	40% and 25% in the case of very undeveloped and undeveloped areas, respectively, on NR for 10 years from the date of operation

#	Industry	Tax rates and incentives
	Royalties from the export of intellectual assets by a person	25% on NR
	Income from the sale of an intellectual asset by a person through a transfer	50% on NR
	Income derived by the agriculture and forest-based cooperatives registered under the Cooperatives Act, 2074 and cooperatives operating in rural municipalities	100% tax exemption as well as no tax on dividend distributions
	Income generated from agriculture businesses, vegetable dehydration businesses and cold store businesses by registered firms, companies, partnerships and organised institutions	50% rebate on AR
	Income earned from the sale of raw materials or subsidiary raw materials manufactured in Nepal to special industries in Nepal	20% rebate on AR
	Income derived by start-up businesses as prescribed by the IRD with an annual turnover up to NPR 100 million (NPR 10 million previously) based on innovative knowledge, skills, technology and methods	100% tax exemption for the first five years from the date of commencement of the transaction
	Industries engaged in the manufacture of new products by using only recycled materials	50% rebate on AR for the first three years from the date of commencement of transactions and 25% for the next two years
	Industries engaged in the manufacture of medical vaccines, oxygen gas and sanitary pads	100% tax exemption for the first five years from the date of start of production and 50% rebate for the next two years
	Income generated by industries involved in the production of green hydrogen	Full income tax exemption for the first five years from the start of operations
	Income generated by industries involved in the production, manufacturing or assembly of electric vehicle charging machines	Full income tax exemption for the first five years from the start of operations
	Income from establishing and operating an industrial zone or industrial village by building the required infrastructure	Full income tax exemption for the ten years from the start of operations, followed by a 50% exemption for the next five years
	Income generated by industries established by mid-July 2025 (Ashadh 2082) for manufacturing or assembling electric vehicles	40% tax exemption for the first five years from the date of commencement of the commercial transaction
	Income generated by industries established by mid-July 2025 (Ashadh 2082) to manufacture agricultural tools	100% tax exemption for the first five years from the date of commencement of production

## Other Tax Incentives

- a. Traditional cottage industries are not subject to income tax and VAT.
- b. Dividends received by resident and non-resident persons from resident companies are taxed at 5%, as final tax.
- c. Expenditure incurred on R&D and the installation of pollution control equipment or processes is immediately deductible up to 50% of adjusted taxable income from taxable income. The balance is available for deduction through tax depreciation (if qualifying).
- d. Persons are allowed a deduction for donations to approved institutions (i.e. educational, religious and social organisations) up to a limit of 5% of their adjusted taxable income not exceeding NPR 100,000.
- e. No income tax is levied on the income of certain cooperatives incorporated under the Cooperative Act, 2048 conducting agricultural, forestry and other agriculture-based activities. Similarly, savings and credit cooperatives operating in rural municipalities will be exempt from income taxes.
- f. Dividends distributed by industries in an SEZ will be exempt from tax for five years from the start of commercial transactions and will be eligible for a 50% rebate for three years thereafter.
- g. Resident individuals are entitled to medical tax credit of at least NPR 1,500 or 15% of medical expenses, along with any amount carried forward from previous years.

## Other Incentives

- a. Industries in SEZ will get full exemption from VAT while importing machinery, equipment, spare parts, raw materials and up to three vehicles. In addition, certain other benefits under VAT and ITA are available to these industries.
- b. No excise duty is levied on the goods produced by industries in SEZ.



- c. Any duties or taxes levied on the raw materials, auxiliary raw materials, etc. used for producing goods for export/deemed export are eligible for refund based on the quantity of exports. The application for a duty refund must be submitted within a year of the date of export.
- d. Export-oriented industries may obtain the bonded warehouse facility. The raw materials for products of this nature can be imported without paying any customs duty or sales tax by simply entering the details of such transactions in a passbook made available by the Department of Customs. The quantity of such raw materials used for the manufacture of exportable products is deducted from the quantity entered in the passbook upon export of the finished products. However, the industry must also submit a bank guarantee sufficient to cover the duties. The finished products must be exported within 10 months of the date of import of raw materials. Industries seeking to access this facility must apply to the Department of Customs.
- e. Subcontracting within industries and accelerated rates of depreciation are available, along with such other facilities as may be specified by the GoN from time to time.

## Import Duties

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### Customs Duty

Customs duty is calculated at the Nepal border on the import of goods and is based on the transaction value, which includes the cost, insurance and freight (CIF). Customs duty is revised each year by the Finance Act.

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





Customs duty is levied using the following methods:

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

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

Generally, customs duty ranges from 1% to 80% of the transaction value.

## Excise Duty

Excise duty is payable on the local manufacture of movable goods and on the import of excise-attracting goods. Excise duty is governed and regulated by the Excise Act, 2002 and the Excise Regulation, 2003. Under the law, excise commodities are closely controlled and supervised by the GoN, from the production stage through to the selling stage.

**Licence required:** No one can manufacture, import, sell or store excisable goods or deliver a related service without obtaining a licence. Similarly, the law prohibits the import of excisable services without a licence. A person, firm or institution that requires such a licence may submit an application in the prescribed form to an excise officer at the appropriate IRD office.

**Returns submission:** Every registered person must file an excise duty return by the 25th day of the following month, even where there have not been any relevant transactions.

## Tax on Insurance Premiums

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Tax must be withheld at a rate of 1.5% on payments of premiums to non-resident insurance companies and on payments of commissions relating to reinsurance premiums to non-resident insurance companies. Resident individuals' gains on investment insurance are taxed and withheld at a flat rate of 5%.

## Local Taxes

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Local taxes are those taxes which are basically governed by municipalities and rural municipalities. The central government has segregated the scope/area of collection of certain taxes by the municipalities and the rural municipalities; however, the collection of income taxes resides with the central government.

Each municipality and rural municipality has its own finance act for each fiscal year, through which the rate of local taxes is set, which basically includes business taxes, rental taxes, local business registration fees, etc., and the procedures for collection of these taxes.

# Labour and Allied Laws

## An Outline of Labour Law

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There are three major laws that advocate the rights and facilities that should be made available to employees working in Nepal by their employers. The major acts governing labour and employment regulations in Nepal are:

- Labour Act, 2017;
- Social Security Act, 2017; and
- Bonus Act, 1974.

In addition to these, the GoN publishes the minimum wage rate on a periodic basis, based on economic conditions.

## Applicability of Labour Law

The GoN promulgated the Labour Act in 2017 by repealing the existing Labour Law, 1992. The Labour Act, 2017 (New Labour Act) is applicable to 'entities', defined to include companies, private firms, partnership firms, cooperatives, associations or other organisations in operation or established, incorporated, registered or formed under prevailing laws to undertake industry or business or provide services with or without a profit motive.

It is also applicable to entities registered in foreign countries and engaged in the promotion of business, the sale of products or promotion of other works in Nepal. In accordance with the New Labour Act, the representative or the individual hired by the foreign entity may file a complaint before the Labour Office or the Labour Court if such an entity violates the terms and conditions of the employment agreement.

The Act is not applicable to:

- civil service;
- Nepal army, Nepal police or armed police force;
- entities incorporated under other prevailing laws or situated in SEZ to the extent separate provisions are provided; or
- working journalists, unless specifically provided in their contracts.

The Labour Act does not specifically apply to persons working with foreign diplomatic missions. The foreign missions are exempt from local laws and jurisdiction which of course may be extended to employment matters in Nepal.



## Recruitment

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An entity can recruit a Nepali citizen as an employee and engage them in work by providing an employment letter that specifies the terms and conditions outlined in Nepal's labour law. The recruitment process is generally governed by the internal policy of the organisation, which should meet the minimum standard provisions of labour law in terms of the facilities and benefits, working hours, post-employment benefits, leave and other facilities.

The employees hired can be kept under a probation period of six months. Children cannot be engaged in work by any entity, and discrimination against employees based on religion, caste, gender, language, origin, ethnicity, colour or any other factor is prohibited by the Labour Law. There is a provision of equal payment for equal work, and engaging women in work beyond office hours is permitted only if the facility for commuting from home to office and vice versa has been arranged.

No foreign national may be engaged in work without an employment agreement (in a language understandable by the foreign national or in English). A foreign skilled worker is hired only if a Nepalese citizen is not available for such a position.

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

Types of employment include:

- **Regular:** Persons hired for work or service 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 service for a definite time period.
- **Casual:** Persons hired for fewer than or equal to seven days a month.
- **Part-time:** Persons hired for fewer than or equal to 35 hours a week  
Part-time workers are remunerated based on hours worked, unless otherwise specified in the employment contract. They cannot be prohibited from working elsewhere and are entitled to social security benefits.
- **Intern:** Any person may be allowed to work as an intern pursuant to the approved syllabus of an educational institution, and after concluding an agreement with that educational institution.
- **Trainee:** A trainee may be appointed for a period of training not exceeding one year, unless otherwise prescribed by law. All trainees are entitled to social security benefits including Provident Fund and gratuity.

## Working Hours

Working hours continue to be eight hours a day and 48 hours a week. Overtime has been increased to 24 hours per week from 20 hours per week. Overtime pay is 1.5 times the regular remuneration.

30 minutes' break is provided after five hours of work, where the work can be interrupted. Where work cannot be interrupted, a break is provided after each shift.

A facility of replacement leave (time off in lieu) is available for workers working on public or weekly holidays.

## Entities with Foreign Investment or Entities Operating on Foreign Aid

A work permit for foreign nationals hired as the chief executive may be provided by simply recording them at the Department of Labour.

Technicians engaged for fewer than three months to carry out repairs on any machinery, install new technology or perform similar casual work may be provided a work permit simply by being recorded at the Department of Labour. Foreign nationals can repatriate their income in convertible foreign currency.

## Remuneration and Wages

Employers must pay at least the minimum remuneration prescribed by the GoN from time to time to their employees. Increments are made at least once a year at the rate of half a day's salary, which is the minimum prescribed limit, and an amount equivalent to the monthly remuneration is provided once a year as festival expenses.

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

### A. Minimum Wages: Other than Tea Estates

Minimum remuneration/ wage	Basic remuneration (NPR)	Dearness allowances (NPR)	Total (NPR)
Monthly	10,820	6,480	17,300
Daily	418	250	668
Hourly	56	33	89

### B. Minimum Wages: Tea Estates

Minimum remuneration/ wage	Basic remuneration (NPR)	Dearness allowances (NPR)	Total (NPR)
Monthly	8,934	4,959	13,893
Daily	323	177	500
Hourly	43	23	66
Note: A daily allowance of NPR 42 applies to labourers, tea garden heads and watchmen working in a tea factory or tea refinery			

## Timelines for Payment of Remuneration

Nature of work	Terms of payment
Engaged in work for less than a month	Within three days of the completion of work
Engaged in casual employment	Upon the completion of work
Other employees	Payment periods should not exceed one month

## Terminal Benefits

The following terminal benefits are to be provided to employees from the date of employment:

Particulars	Provisions
<b>Provident Fund</b>	<ul style="list-style-type: none"> <li>Rate: 10% of basic remuneration</li> <li>Eligibility: From the first day of employment</li> <li>Deposited in: Social Security Fund</li> </ul>
<b>Gratuity</b>	<ul style="list-style-type: none"> <li>Rate of gratuity: 8.33% of basic remuneration</li> <li>Time of allocation: Every month (time of payment of remuneration)</li> <li>Eligibility: From the first day of employment</li> <li>Deposited in: Social Security Fund</li> </ul>
<b>Leave encashment</b>	Accumulation: <ul style="list-style-type: none"> <li>Home leave up to 90 days</li> <li>Sick leave up to 45 days</li> <li>Encashment at the time of discontinuation of service at the rate of last drawn salary</li> </ul>

## Leave and Holidays

Employees are entitled to the following leave facilities and holidays:

Particulars	Provisions
Weekly time off	One day every week
Public holidays	13 days for male employees (including International Labour Day)  14 days for female employees (including International Women's Day)
Home leave	One day for every 20 days worked

Particulars	Provisions
Sick leave	Fully paid up to 12 days per year  Eligibility: On a proportional basis for those employees who have not completed one year of service
Maternity leave	Up to 14 weeks (fully paid leave of 60 days)
Paternity leave	Up to 15 days (fully paid)
Bereavement leave	13 days
Leave in lieu	For employees who work on public holidays or during weekly time off
Accumulation	Home leave: 90 days  Sick leave: 45 days  Excess accumulation: Encashed every year

### Other Benefits

Employees are entitled to the following benefits under the labour laws:

Particulars	Provisions
Festival expenses	Amount equivalent to monthly remuneration once a year. Employees who have not completed a full year of service are entitled to the expenses on a proportional basis.
Death compensation	The Act provides that the nearest successor is entitled to accident insurance.
Medical insurance	Coverage: At least NPR 100,000 per year for every worker  Premium: Half paid by the employer and half by the employee
Accident insurance	Coverage: At least NPR 700,000 for every worker  Premium: Fully paid by the employer
Bonus	10% of net profit by profit-making companies in any financial year
Disability compensation	As recovered from the insurance amount on the basis of degree of disability
Compensation against injury	As recovered from the insurance amount



## Standard Regulations for Employment Contracts

The Labour Act, 2017 requires employers to employ workers only after entering into an employment contract. The following matters must be disclosed in the employment contract:

- nature of employment;
- job description and position;
- provision that the by-laws established under section 108 of the Labour Act are an indispensable part of the contract;
- place, time and effective date of implementation of the contract; and
- other relevant employment terms.

## Visa, Work and Residence Permits

Under FITTA, 2019, the following visa rules apply to investors and their family members:

Visa type	Issued to			Duration
<b>Non-tourist visa</b>	A foreign national visiting Nepal to conduct study, research or survey for investment in Nepal			Up to six months
<b>Business visa</b>	A foreign investor, dependent family member, authorised representative of such a foreign investor or dependent family member of such an authorised representative			Until the foreign investment is retained
	<b>Investment</b>	<b>Amount to be invested</b>	<b>Visa issued to</b>	
	NPR 50 million	-	One person	
	≥NPR 100 million	25% of the amount	One person and family member	
<b>Residential visa</b>	Foreign investor who makes an investment of US\$1 million or above (previously US\$100,000) (or equivalent in convertible foreign currency)			Residential visa granted to two persons and family members until 50% of such investment is retained
<b>Non-tourist visa</b>	Foreign specialist, technician or managerial staff working in industry			As required

Investors can get visa-related services and a work permit through the Single Point Service Centre.

A recommendation for visa is issued through the Single Point Service Centre to the related office within two days of the application, provided the following are in order.

- a. approval letter of foreign direct investment;
- b. copy of the applicant's passport;
- c. proof of the appointment of an authorised representative;
- d. proof of the relationship from the competent authority of the country of domicile or the Nepalese embassy; and
- e. work permit and labour permit (for a non-tourist visa).



## Social Security

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The GoN promulgated the Contribution-based Social Security Act, 2017 on 24 July 2017, in connection with the rights of workers based on the concept of contributory social security and to cover all contributors.

### Establishment of the Social Security Fund

The social security fund (SSF) was established for the operation and management of employees' social security. The SSF is established by contributions or money received from:

- contributors and employees (contributions);
- Provident Fund contributions from an employee and employer;
- gratuity, severance, etc. under the Labour Act;
- social security tax collected to date (and to be collected in future);
- donations from the GoN;
- loans, assistance and donations from foreign governments and international organisations (prior approval is required from the GoN before receiving such amounts);
- bonuses from the national level Welfare Fund (Kalyankari) (utilisation is restricted to such a contributor only);
- the gain and interest received from an investment of the amount of SSF;
- loans from the GoN; and
- any other sources.

## Contributions to the SSF

Listed employers must deposit contributions as specified to the SSF on a monthly basis, unless otherwise specified or, where a whole month's contribution is not required, beginning from the day of listing of the employee until the last day of employment. Contributions must be deposited in the SSF within 15 days from the end of the month. Broadly, there are four different kinds of schemes covered under the SSF, namely:

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

Scheme	Contribution of basic salary		
	Employer	Employee	Total
Medical Treatment, Health and Maternity Protection Scheme (social security fees)	–	1%	1%
Accident and Disability Protection Scheme	1.4%	–	1.4%
Dependent Family Protection Scheme	0.27%	–	0.27%
Old Age Protection Scheme (gratuity 8.33% and Provident Fund 20%)	18.33%	10%	28.33%
<b>Total</b>	<b>20%</b>	<b>11%</b>	<b>31%</b>

The contribution-based social security scheme is funded through the contributions made by workers and employers. While the workers contribute 11% of their basic salary, employers deposit 20% of the workers' basic salary.

Most importantly, workers are eligible to participate in the social security scheme from the day they start their employment, and there is no probationary period required to be eligible to participate in the scheme. However, workers cannot claim a particular benefit unless they have made mandatory contributions for a specified number of months into the fund. For example, to claim a medical benefit, a worker must have made regular contributions for at least six months.

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

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

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

## Delay in Deposit of Contribution

Interest at the rate of 10% in addition to the amount of contribution is charged by the SSF for failure to deposit the contribution within 15 days from the end of the month. An enlisted employer can, within 30 days after the due date for depositing the contribution, file an application in writing, specifying the reasons and basis of the occurrence of an uncontrollable event, accounting for the delay. If the explanation so provided is considered reasonable, the SSF 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 SSF will notify the related institution of the following actions to be complied with 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 licence of such employers; and
- freeze the passport of concerned personnel.

## Contribution by Employer on behalf of Employee

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

## Entitlement in the Social Security Programme

A contributor to the SSF is entitled to the social security programme as prescribed, on a proportionate basis, for the period as specified.

## Employee Bonus

The Bonus Act, 1974 provides a legal basis for the payment of a bonus from the profits earned by an entity to its workers and employees.



## Amount of Bonus to Employee

Each profit-making enterprise (other than a government-owned enterprise) must allocate an amount equivalent to 10% of its annual net profit to be paid as a bonus to its employees. The bonus should not exceed the following amounts:

Remuneration	Maximum bonus payable
Monthly salary or wage up to two times the minimum wage fixed by the GoN	Up to eight months' salary or wage
Monthly salary or wage more than two times the minimum wage fixed by the GoN	Up to six months' salary or wage

## Payment

Employee bonuses must be paid (in cash) every year within eight months of the end of the fiscal year, or in certain cases, they can be paid the following year as an accumulated bonus for both years.

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

## Staff Welfare Fund

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

- 70% must be deposited into the Welfare Fund (established in accordance with the prevailing laws); and
- 30% must be deposited with the national level Welfare Fund.

## Prevention of Occupational Hazards

The Labour Act, 2017, addresses occupational safety and health. This requires employers to implement adequate controls to protect employees from occupational hazards, which helps prevent injuries, minimise or eliminate health risks and enables employers to provide workers with safe and healthy working conditions. For the purpose of occupational safety and health of the employees, the employer is required to:

- formulate a safety and health policy;
- form a safety and health committee;
- ensure a safe environment by making appropriate safety and health provisions at the workplace;
- make necessary provision for the use, operation, storing or shifting of chemical, physical or bio-degradable material or equipment so that the safety and health of the workers are not adversely affected;
- provide necessary information, notice or training relating to safety and health to the workers;
- provide necessary training and information in an appropriate language to the workers in relation to the equipment and use or operation of chemical, physical or biodegradable material for their work;
- make proper arrangements for safe entry to and exit from the workplace;
- provide necessary personal safety equipment to the workers; and
- not charge any fees to the workers for the provision of necessary safety equipment or facilities.

# E-Business Legal Framework

## Civil and Commercial Regulations

The general civil and commercial regulations that an e-commerce business should follow are listed below:

- Companies Act, 2006;
- Income Tax Act, 2002;
- Industrial Enterprises Act, 2020;
- Foreign Investment and Technology Transfer Act, 2019; and
- Money Laundering and Prevention Act, 2008.

E-commerce companies are not involved in the manufacturing or production of products. However, prior approval from the Department of Industry and Commerce is required if the company is planning to get involved in the manufacturing of goods or products. An e-commerce company can be registered with the Department of Commerce or with the Department of Industry if the following conditions met:

Conditions for registration with Department of Commerce	Conditions for registration with Department of Industry
Nature of the business is trading	The company sells goods, customises them and is involved in packaging
The company operates its business by promoting trade through its e-commerce platform	If stated in the memorandum of association
The company imports and exports goods, and has direct sales	Company is involved in imports and exports

## E-Commerce Act

The Electronic Commerce Act, 2025 (2081) came into force in mid-April 2025. The Act provides Nepal's first dedicated legal framework for regulating e-commerce activities. It applies to the sale of goods and services through electronic means such as websites, mobile applications and social media platforms. Both domestic and foreign service providers offering products or services to Nepali consumers fall within the scope of this law.

### Mandatory Registration

All e-commerce businesses – whether direct sellers or intermediary platforms – must register with the Department of Commerce, Supplies and Consumer Protection (DoCSCP) within three months of the Act's enforcement. The registration must include details such as the company name, PAN/VAT number, contact information, platform type (e.g. website, app), and branch or outlet addresses. Changes to these details must be reported to the DoCSCP within seven days.



## Agreements and Contracts

The Act requires platforms to enter into formal written or electronic agreements with all third-party sellers operating through them. These contracts are legally recognised, and the law validates electronic contracts and digital signatures. It further provides that payments made to a delivery agent shall be considered as payments received by the seller, ensuring accountability in the payment flow.

## Information Disclosure Obligations

Platforms and sellers are required to disclose accurate information about the goods or services being offered. This includes the name and specifications of goods or services, price (including taxes and delivery charges), country of origin, warranty details and policies on cancellation, exchange or refund. If any information changes – such as price or availability – it must be updated within 48 hours.

## Consumer Protection and Grievance Handling

The law mandates the establishment of an online grievance redressal system by all platforms. Consumers must be able to file complaints digitally, and businesses must respond to these complaints within 15 days. Refunds or returns are required in cases where the product or service does not match its description, is defective or fails to meet delivery or quality commitments.

## Delivery and Performance Liability

The Act requires that goods or services sold online must be delivered within the promised time frame. Unless explicitly stated otherwise, delivery must occur within seven days of purchase. Liability for contract performance lies with the seller or service provider, but intermediaries (like marketplace platforms) may also be held responsible under certain conditions.

## Responsibilities of Intermediary Platforms

Intermediary e-commerce platforms, such as online marketplaces, have additional responsibilities. These include ensuring non-discriminatory access for sellers, verifying seller identities, maintaining transaction logs as required by tax authorities and refraining from publishing misleading advertisements or fabricated reviews. They must also ensure fair treatment of all third-party vendors and prevent algorithmic bias.

## Penalties and Enforcement

Violations of the Act may result in penalties, including monetary fines and legal actions. The law outlines a tiered penalty system based on the severity of the offence, including non-compliance with registration, failure to update product details and deceptive practices.

## Regulatory Oversight

The DoCSCP is authorised to monitor compliance with the Act. This includes powers to conduct inspections, demand documents, impose administrative penalties, cancel registrations and blacklist non-compliant businesses or platforms.

# Reference Websites

## Useful Links and Reference Websites

Nepal Law Commission	<a href="https://www.lawcommission.gov.np">https://www.lawcommission.gov.np</a>
International Labour Organisation	<a href="http://www.ilo.org">www.ilo.org</a>
Social Security Fund	<a href="https://ssf.gov.np">https://ssf.gov.np</a>
Invest Nepal (Ministry of Industry)	<a href="http://www.investnepal.gov.np">www.investnepal.gov.np</a>
Office of the Company Registrar	<a href="https://ocr.gov.np">https://ocr.gov.np</a>
Inland Revenue Department	<a href="https://ird.gov.np">https://ird.gov.np</a>
Department of Industry	<a href="http://www.doind.gov.np">www.doind.gov.np</a>
World Bank in Nepal	<a href="https://www.worldbank.org/en/country/nepal/overview">https://www.worldbank.org/en/country/nepal/overview</a>

# Reference Legislation

## Relevant Domestic Legislation

- Labour Act, Social Security Act, Copyright Act, Trademark and Patent Act
- Social Security Fund updates
- Environment Protection Act, 2076 (2019)
- Foreign Exchange (Regulation) Act, 1962 (2019)
- Information Society Services and E-Commerce Act
- Companies Act, 2006
- Income Tax Act, 2002
- Industrial Enterprises Act, 2020
- Foreign Investment and Technology Transfer Act, 2019
- Money Laundering and Prevention Act, 2008
- Consumer Protection Act, 2018
- Society Registration Act and Social Welfare Act
- Nepal Petroleum Act, 2040
- Value Added Tax Act, 1996 and Regulations, 1997
- Excise Act, 2002
- Labour Act, 2017
- Social Security Act, 2017
- Bonus Act, 1974
- Finance Act, 2025

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