

Guide to do business in

NEPAL

**Chandrawat
& Partners**





ABOUT NEPAL

ADVANTAGES

Located between two huge countries with vibrant economies, China in the north and India in the east, south, and west, Nepal is a landlocked country on the southern slope of the Himalayas. The country's economy is based on tourism, agriculture, carpets, textiles, and tea. Because of its geographical and historical reasons, Nepal does most of its trade with India. However, China and the United States are also trade partners of Nepal to some extent. Further, large-scale commercial activity has hitherto been in the hands of foreigners, primarily Indians.

After its designation as the Federal Democratic Republic, the Nepalese government and private sector institutions have been addressing issues such as reforming the financial sector, strengthening the private sector's capacity, and streamlining the private sector's development. The following are some benefits of doing business in Nepal:

Comparative advantage

Nepal is located between two of the world's most populous countries, India and China, with easy access to both countries' vibrant markets. The country's significantly lower tariffs on imports make Nepal an attractive location for foreign investment. Natural as well as cultural assets of Nepal also offer a substantial opportunity to investors.

Market size and accessibility

Though the country is small in size with a limited market, its special relationships with neighboring countries offer significant access to the largest markets in the region. The country has easy access to the world market. Nepal is also a member of WTO thus getting the benefits of a global rule-based multilateral trading arrangement.

Population and workforce

Being a labor-surplus country, Nepal supplies unskilled, semiskilled, skilled, and highly-skilled labor to various labor-importing countries. Based on the classification of the industry:

- 73.9% work in the agriculture sector and
- 26.1% are engaged in non-agriculture sectors.

Investment climate in Nepal

To create social and economic systems that can provide reliable access to good quality, the Government of Nepal "GON" is highly supportive of foreign investment. Moreover, through sustainable economic development, the country is working toward political stability, peacebuilding, trade facilitation, and economic capacity building.

Industry

New Industrial Policy of the country attracts domestic and foreign investors by improving the industrial environment, increasing industrial production and productivity, creating more employment opportunities, substituting imports through the promotion of export-based industries, improves Nepal's balance of payment by minimizing the trade deficit.

Return on investment (ROI)

In comparison to other countries in South Asia, Nepal offers the lowest tax burden in the region. Some of the reasons for comparatively high ROI in Nepal.

Individuals tax

Resident personal income tax

- Income up to NPR 500,000 is liable to tax at a rate of 1% of annual income.
- Additional NPR 700,000 is liable to tax at a rate of 10% of annual income.
- Additional NPR 10,00,000 is liable to tax at a rate of 20% of annual income.
- Next NPR 20,00,000 is liable to tax at a rate of 30% of annual income; and
- Balance above NPR 20,00,000 is liable to tax at a rate of 36% of annual income.

Non-residents

- Normal transactions are liable to tax at a rate of 25%;
- Through shipping, air or telecom services, postage, satellite and optical fiber project are liable to tax at rate of 5%;
- Shipping, air or telecom services through the territory of Nepal is liable to tax at rate of 2%; and
- Repatriation of profits by the Foreign Permanent Establishment is liable to tax at a rate of 5%.

SIMPLE TAX REGIME

Corporate income taxes

Permanent Establishment

- A permanent establishment is liable to corporate tax at a rate of 25%.
- Tax on dividend is liable to corporate tax at a rate of 5%.

Non tax resident

Non resident businesses are liable to tax on income having source in Nepal, however, the business entities are liable to tax as follows:

- Business sectors such as hydropower are taxed at a concessional rate of 20% and other sectors such as banking institutions are liable to be taxed at 30% under Income Tax Act, 2002;
- Capital gains are liable to withholding tax at a rate of 10% for a natural person and at a rate of 15% for others. However, the entire capital gain is liable to tax at the normal corporate rate applicable to the particular entity/person; and
- Goods and services are liable to VAT at a rate of 13%.

There are several types of legal entities available in Nepal.

Based on Incorporation:

Chartered company - Charter companies are established by the royal charter or a special sanction granted by the head of the state. Moreover, the East India Company and Hudson's Bay are some examples of this type of company. However, nowadays this type of company is no more popular.

Statutory company - Statutory companies are created by the special act of the parliament, whereas the objectives, powers, and activities of the companies are defined by the Act. The Nepal Rastra Bank, Agriculture Development Bank, and Nepal Industrial Development Corporation are some examples.

Registered company - This type of company is formed under the company act of the country, whereas the working of a registered company is also governed by the provision of said Act. The Himal Cement Company and the Gorkha Biscuits Pvt. Ltd are some examples of registered companies.

Based on liability:

Unlimited company - In this type of company, the liabilities of the members are unlimited like that of a partnership firm. However, if the assets of the company are not sufficient for satisfying the claims of the creditors, the shareholders are liable to pay more than the face or nominal value of shares held by them even from their personal property.

Company limited by shares - This type of company is registered under the provisions of the Company Act with a specific amount of share capital divided into a definite number of shares. The liability of the shareholders is limited to the extent of the face value of the shares they have paid. These days this type of company is quite common.

Company limited by guarantee - The company, under which each shareholder promises to pay a specific sum as a guarantee at the time of winding up of a company, is called company limited by guarantee. Such a guarantee is specified in the Memorandum of Association of the company. The amount of such a guarantee may differ from member to member.

Based on ownership:

Government companies - In this type of company, at least 51% of the paid-up share capital is held by the government.

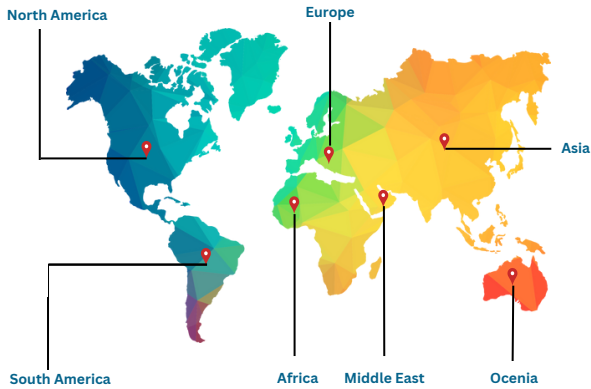
Non-government companies - Companies that are not a government undertaking are called Non-government companies. Generally, this type of company is owned, managed, and controlled by the private sector.

Based on number of members:

Private company - This type of company by its Memorandum Of Association, limits the number of its members not exceeding 50 and prohibits the sales of its shares to the general public. A private company must use the words private limited (Pvt. Ltd.) in its name.

Public company - This type of company, by its Memorandum of Association, limits the minimum number of its members which is at least seven but there is no limit for the maximum number of shareholders. Public companies offer their shares to the general public. A public company is governed by authorized capital with which they are registered. The shares of a public company are transferable. Public companies are required to use the word limited (Ltd.) in their name.

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