

TRADE, INDUSTRY AND TAX POLICY HIGHLIGHTS

A. TRADE POLICY

- Public sector works as a catalyst and facilitator to expand the role of private sector.
- No Licenses required for exports and import of any products other than banned or quantitatively restricted items, Banned and quantitatively restricted items.
- The duty drawback scheme available for the refund of import duty paid on imported raw materials and intermediate goods required for the production of exportable products.
- Export Promotion Zone (EPZ) and Special Economic Zone (SEZ) are being established in different location.
- No Duty levied on raw materials and auxiliaries imported by industries in EPZ./SEZ
- Foreign currency required for import will be made available by the commercial banks at the market rate.
- Exporters allowed retaining their export earnings in their own foreign currency account.
- No quantitative restrictions on the exportable products carried by tourists while returning from Nepal.

IMPORT

1. Almost all goods are in OGL
2. The customs value is calculated on CIF basis (Cost Insurance and Freight) on import.
3. Nepal has adopted General Agreement on Tariff and Trade (GATT) valuation system
4. Principle of lower rate of customs duty on the import of raw materials compared to finished goods is in use.
5. Prevailing custom duty rates are 80%, 30%, 20 %, 15%, 10% , 5%.and 0 % .

Import Custom Tariff from SAARC countries (Except Negative List)

Prevailing tariff Rate (1 January,2006)	Chargeable tariff Rate on Import from SAARC Countries
5 %	5%
10%	7%
15%	9.25%
25%	13.75%
35%	17.5%
40%	17.5%
80%	17.5%

6. Goods imported from India into Nepal are granted a rebate in the chargeable advalorem (except specific) rate of customs duty by 5% ad-volorem duty in above than 30 percent custom duty and 7 % below than 30 percent .
7. Goods produced in China and imported from Tibet are granted a rebate in the chargeable advalorem (except specific) rate of customs duty by 4%.
8. The ASYCUDA system is in use at seven major custom points and plan to add in two major points.

FEES ON IMPORT

1. Agriculture Development fee of 5% is levied on import value on imported agricultural goods.
2. NRs.600 as customs service fee is charged per custom declaration form on export and Rs 500 on import at custom point

EXPORT

1. Export is generally free of custom duty.
2. Custom duty on export is levied on the basis of FOB price determined by calculating the cost incurred including in transporting the goods up to custom point when exporting the goods.
3. No licensees required for exports of any product other than banned or quantitatively restricted items
4. Generalized System of Preferences (GSP) is available to Nepal's export as a Least Developed Country.

B. INDUSTRIAL POLICY

INDUSTRIES REQUIRING PERMISSION

Industries producing explosives including arms, ammunition and gunpowder, security printing, bank notes and coin industries.

Cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of a similar nature utilizing tobacco as the basic raw material and alcohol or beer producing industries.

C. FOREIGN INVESTMENT

- Permission will not be granted for foreign investment in the industries specified in Annexure 5. Rest of the industries a permission is required.
- Foreign investments will be permitted up to 100 percent except the negative list.
- Repatriation of capital & profits is allowed.
- No intervention will be made in fixing prices of the products of any industry.
- Business visas shall be granted to foreign investors or their dependent family members or authorized representatives and their dependent family members to stay in the kingdom of Nepal so long as they maintain their foreign investment. Provided that a Foreign Investor, who makes a lump sum investment of at least US\$ 100,000, or an equivalent amount in any convertible foreign currency, and his dependent family members shall be granted residential visas so long as he maintains his investment

D. INCENTIVES AND FACILITIES

- After an industry comes into operation, 10 percent of the gross profit shall be allowed as a deduction against taxable income on account of expenses related with technology, product development and efficiency improvement.

- If any other industry utilizes locally available raw materials, chemicals and packing materials, etc. on which excise duty is already imposed, the excise duty shall be reimbursed to the industry utilizing such raw materials chemicals and packing materials. The amount to be so reimbursed shall be refunded within sixty days after an application to that effect has been duly submitted.
- The customs duty & excise duty on raw materials and auxiliary raw materials, etc. utilized by any industry in connection with its product during its production shall be reimbursed on the basis of the quantity of the export.
- Any industry sells its products in the Export Promotion House, the customs duties levied on the raw materials imported for producing the products and the excise duty levied on the products shall be reimbursed for concerned industry on the basis of the quantity of sale and export.
- If an industry sells its product within the country in any foreign currency, the excise duty and custom duty on such product and customs duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such product shall be reimbursed.
- The customs duties and excise duty on the production materials of intermediate goods to be utilized for the production of exportable industrial goods and excise duty levied on the product shall be reimbursed to the concerned industry producing the intermediate goods, on the basis of the quantity of export.
- If an industry producing intermediate goods sells its products to any other industry producing finished goods, the custom duty and excise duty to be levied on such products will be allowed to be adjusted on the basis of the quantity utilized by the industry producing the finished goods.
- No royalty shall be imposed if any industry generates electricity for its use.

E. TAX SYSTEM AND TAX RATES -F.Y. 2068/69 (2011/2012):

1. INCOME TAX:

- Nepalese income tax system generally follows the prevailing international practices
- Resident taxpayers (Individual or entities) are taxed on worldwide income while Non-resident taxpayers are taxed only on their income earned in Nepal.

1.1 TAX RATES FOR INDIVIDUAL & FAMILY

Annual Basic Exemption amount

(1 percent social security tax is applicable in exemption limit).

For Individual	Rs. 160,000
For spouse/widow	Rs. 200,000

On taxable income

On income of up to Rs. 100000 beyond the exemption amount	15%
On all further incomes beyond taxable income of Rs. 100000	25%
40 percent additional income tax income above than 2500000	

1.2 Corporate Income Tax: Registered private and public limited company and other organizations including private firms levied at a flat rate of:

- a. Banks, Financial Institutions, General Insurance Business, 30% Petroleum Business and cigarette & Beverage business
- b. Others 25%
- c. For Non-Resident Persons 25%
- d. Enterprises accepted as industry by Industrial Enterprise Act 20% (except alcohol & tobacco based units)
- e. Enterprises, which construct and operate road, bridge, tunnel, 20% ropeway, flying bridge, trolley bus, tram
- f. Entities engaged in building and operating public infrastructure 20% to be transferred it to NG
- g. Entities wholly engaged in power generation, transmission or 20% distribution for an income year
- h. Export business 20%
- i. Dividend Tax 5 %
- j. Capital Gain Tax
- For Entities Normal
- For Natural person 10 %
- Income derived from shipping, air transport or telecommunication by non-resident persons 2%
- The repatriated income of a foreign permanent establishment of a non-resident persons 10%

Concession and Facilities for Industrial Sector According to Income Tax Act 2002:

- All business related expenses are deductible from taxable income including expenses occurred to reduce pollution and minimizes the adverse environment effects and research & development expenditure.
- Information technology industries or Manufacturing industry providing employment to 300 or more Nepali citizens during the whole year gets additional facilities of income tax rebate at the rate of 10% on the applicable tax and industry provides employment 1200 or more citizens during the whole year gets rebate at the rate of 20 percent on prevailing rate.
- Industries established in certain underdeveloped, remote and semi-developed areas are given rebates on income tax. The rebate may range from 50 - 25% of the applicable tax depending on the level of development of the district.
- Information technology industries or Industries which providing employment to more than 100 Nepali citizens including 33 percent women, dalit and disable person during the whole year gets income rebate of 20 percent.
- Ten years income tax holiday for Industries established in certain underdeveloped areas. (22 districts)
- 5 years tax holiday for Industries established in Special Economic Zone (SEZ) or Export Processing Zone (EPZ) and 50 percent income rebate on the applicable tax rate after 5 years.
- 10 years income tax holiday industries established in hilly region and prescribed special economic zone of mountain region and 50 percent income tax rebate on the applicable tax rate after 10 years.

- Fifty percent income tax rebate in income of Foreign investor generated from industry established in special economic zone providing services such as foreign technology , management fee and royalty
- 40 percent income tax rebate for the Enterprises, which construct and operate road, bridge, tunnel, ropeway, flying bridge, trolley bus, tram
- 25 percent income tax rebate for commodity export industry on prevailing tax rate.
- 50 percent income rebates on income from export of Intellectual property, sale and transfer.
- 7 years tax holiday and 50 percent tax rebate for 3 years after 7 years from the operation date for industry involved in investigation of petroleum product and natural gas.
- Any hydropower industry start construction before 2071 Bhadra 7 (B.s) and starts commercial transaction before chaitra 2075 will get 10 years tax holiday and 50 income tax rebate for 5 year after 10 years from the date of starting commercial transaction.

Depreciation:

- Depreciation of depreciable assets owned and used by taxpayer during the year in the production of the taxpayer's income (business or Investment) is deductible from taxable income.
- Depreciation can be charged only in Diminishing Balance Method value of pool of assets basis.
- One third additional rate of depreciation can be charged for manufacturing industry, export business and public infrastructure entities.

Classification, Pooling and Rates of Depreciable Assets:

Class	Assets	Rates
A	Building structure & similar work of permanent nature	5 percent
B	Computer data handling equipment, fixture, office furniture & office equipment	25 percent
C	Automobiles, minibus & buses	20 percent
D	Construction & earth moving equipment and depreciable assets not included in other class	15 percent
E	Intangible assets others than class D depreciable assets	Divided on useful life

Loss Recovery

- Business loss can be carried forward up to 7 succeeding years from any source of income.
- Investment losses can be forwarded up to 7 succeeding years from any investment income
- Infrastructure development project and petroleum business can forward losses up to 12 succeeding years.
- In case of long term contract, loss can be carried back as per the notice of the Internal Revenue Department

VALUE ADDED TAX (VAT):

1. A firm whose annual turnover of goods and services is less than Rs.2 million needs not be registered with the VAT office and collect VAT on sales. But they can register voluntarily.
2. VAT is levied at a single rate of 13 percent. In certain cases, the rate may be zero and certain goods and services are exempted from VAT.
3. Value Added Tax is collected at every (manufacturing, distribution, wholesale and retail) stage of selling goods and services.
4. Exports of taxable goods are zero rated.
5. A firm registered with the VAT Office may claim credit on tax paid on inputs / purchases.
6. VAT paid on inputs can be adjusted while collecting the VAT on finished products.
7. Industries that exported more than 80 percent of total sales in past twelve months and which have a minimum of twenty percent of value addition can import raw materials providing bank guarantee on account of the payable VAT.
8. Certain products such as primary food stuffs, primary agricultural products, and industrial machineries are exempted from VAT.
9. VAT Exempted Goods and Services
 - a. Basic Agricultural Products
 - b. Goods of Basic needs
 - c. Live animals, animal product ,animals feed and feed supplements
 - d. Agricultural inputs
 - e. Education services
 - f. Transport service
 - g. Health Services
 - h. Raw materials for pharmaceutical industries
 - i. Books, Newspapers and Publications
 - j. Industrial machinery
 - k. Cultural and Artistic goods and Services
 - l. Specified personal & Professional Services
 - m. Others goods and services such as postal service, financial & insurance service, buying & selling of real estate.
10. Zero Rated goods and services
 - a. Goods exported or services provided abroad
 - b. Goods & Services imported by accredited diplomats

F. EXCISE DUTY

- Excise duty is levied on certain goods (tobacco, alcohol, plastic, cement, vehicles, marble) produced in and imported to Nepal. The rates may be advalorem as well as specific.

A. PRODUCTS BANNED FOR EXPORTS

1. Articles of Archaeological and Religious Importance
 - 1.1 National and foreign coins of archaeological value.
 - 1.2 Idols of gods and goddesses, palm leaf inscription (Tad Patra), plant leaf inscription (Bhoj Patra).
 - 1.3 Scroll (Thanka paintings) of historical importance.
2. Conserved wildlife and Related Articles
 - 2.1 Wild animals.
 - 2.2 Bile and any part of wild animals.
 - 2.3 Musk.
 - 2.4 Snake skin, Lizard skin.
3. Narcotic Drugs Narcotic Marijuana, Opium, Hashish (as defined in the Single Convention on Narcotics, 1961).
4. Articles of Industrial Importance
 - 4.1 Explosives material and fuse or materials needed there for.
 - 4.2 Materials used in the production of arms and ammunition.
5. Industrial Raw Materials
 - 5.1 Raw hides and skin (including dry salted).
 - 5.2 Raw wool.
 - 5.3 All imported raw materials, parts and capital goods.
6. Other products
 - 6.1 Mamira.
 - 6.2 Log and timber.

PRODUCTS BANNED FOR IMPORTS

1. Products injurious to health
 - (a) Narcotic drugs like, opium and morphine
 - (b) Liquor containing more than 60 percent alcohol
2. Arms and ammunitions and explosives (except under import license of Government of Nepal)
 - (a) Materials used in production of arms and ammunition
 - (b) Guns and cartridges
 - (c) Capes without paper
 - (d) Arms and ammunitions, and other explosives
3. Communication equipment: wireless, walkie-talkie, and similar other audio communication equipment's (except under import license of Government of Nepal)
4. Valuable Metals and Jewelleries (except permitted under baggage rules)
5. Beef and beef products
6. Any other product notified by Government of Nepal Gazette.

COTTAGE INDUSTRIES

With the exception of cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing other goods of a similar nature utilizing tobacco as the basic raw material, alcohol and beer producing industries, Handloom, Pedalloom, Semi-automatic loom. Warping, Tailoring (Other than Readymade Garments), Knitting, Handknitted Blanket (Radi, Pakhi), Carpentry, Wooden Artistic Product, Cane and Bamboo Works, Natural Fibre Products, Handmade paper and Goods made up thereof. Gold, Philigiree Products including Silver, Brass, Copper Precious and Semi-Precious Stones, Ornaments, Sculptures and Pottery, Honey, Chyuri, Cardamom Processing, Clay or Ceramic Pottery, Leather Cutting and Tanning, Rural Tanning and Leather Goods producing Works, Jute, Sabai Grass, Babio, Choya, Cotton Thread Products, Artistic Products made up of Bones and Horns, Stone Carving, Ceramic Fine Arts, Pauwa, Boutique, Incense Stick (Dhup), Dolls and Toys Industries and cottage industries with the fixed asset of up to two hundred thousand rupees.

Note :

- i. Unless otherwise mentioned specifically, machines of the above mentioned industries should not employ through electric motors of diesel or petrol or crude oil engine more than a total of five kilowatt. Power looms shall not be included under Cottage Industries.
- ii. Permission shall be required for the establishment of mechanized woolens spinning and mechanized woolens carpet manufacturing.

CLASSIFICATION OF DISTRICTS ON THE BASIS OF INDUSTRIALIZATION

Remote Area

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|---------------|---------------|-----------------|--------------------|
| 1. Darchula | 2. Bajhang | 3. Bajura | 4. Humla |
| 5. Mugu | 6. Jumla | 7. Kalikot | 8. Dolpa |
| 9. Mustang | 10. Manang | 11. Solukhumbu | 12. Sankhuwa Sabha |
| 13. Khotang | 14. Bhojpur | 15. Achham | 16. Dailekh |
| 17. Jajarkot | 18. Rukum | 19. Okhaldhunga | 20. Myagdi |
| 21. Terhathum | 22. Ramechhap | | |

Undeveloped Area

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|--------------------|-------------|---------------|-------------|
| 1. Taplejung | 2. Rolpa | 3. Baitadi | 4. Rasuwa |
| 5. Gulmi | 6. Parwat | 7. Dadeldhura | 8. Pyuthan |
| 9. Doti | 10. Sallyan | 11. Panchthar | 12. Baglung |
| 13. Sindhupalchowk | | | |

Under developed Area

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|-------------|---------------------|-----------------|--------------|
| 1. Kailali | 2. Surkhet | 3. Arghakhanchi | 4. Palpa |
| 5. Syangja | 6. Dhading | 7. Lamjung | 8. Tanahu |
| 9. Gorkha | 10. Sindhuli | 11. Udayapur | 12. Dhankuta |
| 13. Ilam | 14. Kanchanpur | 15. Bardia | 16. Dang |
| 17. Nuwakot | 18. Kavrepalanchowk | 19. Dolka | |

LIST OF INDUSTRIES NOT TO BE GRANTED PERMISSION FOR MAKING FOREIGN INVESTMENT

Clause (a)

1. Cottage industries.
2. Personal service (such as hair-cutting, beauty parlor, tailoring and driving training etc.).
3. Arms and Ammunition industries.
4. Explosive, gunpowder.
5. Industries related to Radio active materials.
6. Real Estate business (except construction industries).
7. Motion picture business (produced in national languages and the language of the nation).
8. Security printing.
9. Currencies and coinage business.

Clause (b)

1. Retail business.
2. Travel agency.
3. Trekking agency.
4. Water rafting.
5. Pony trekking.
6. Horse-riding.
7. Cigarette, bidi (tobacco), Alcohol (excluding those exporting more than 90 percent).
8. Internal courier service.
9. Atomic energy.
10. Tourist lodging.
11. Poultry farming.
12. Fisheries.
13. Bee-keeping.
14. Consultancy services, such as management, accounting engineering and legal services.