

# HANDBOOK on Procedure & Compliance

For Foreign Company  
Registration in Nepal

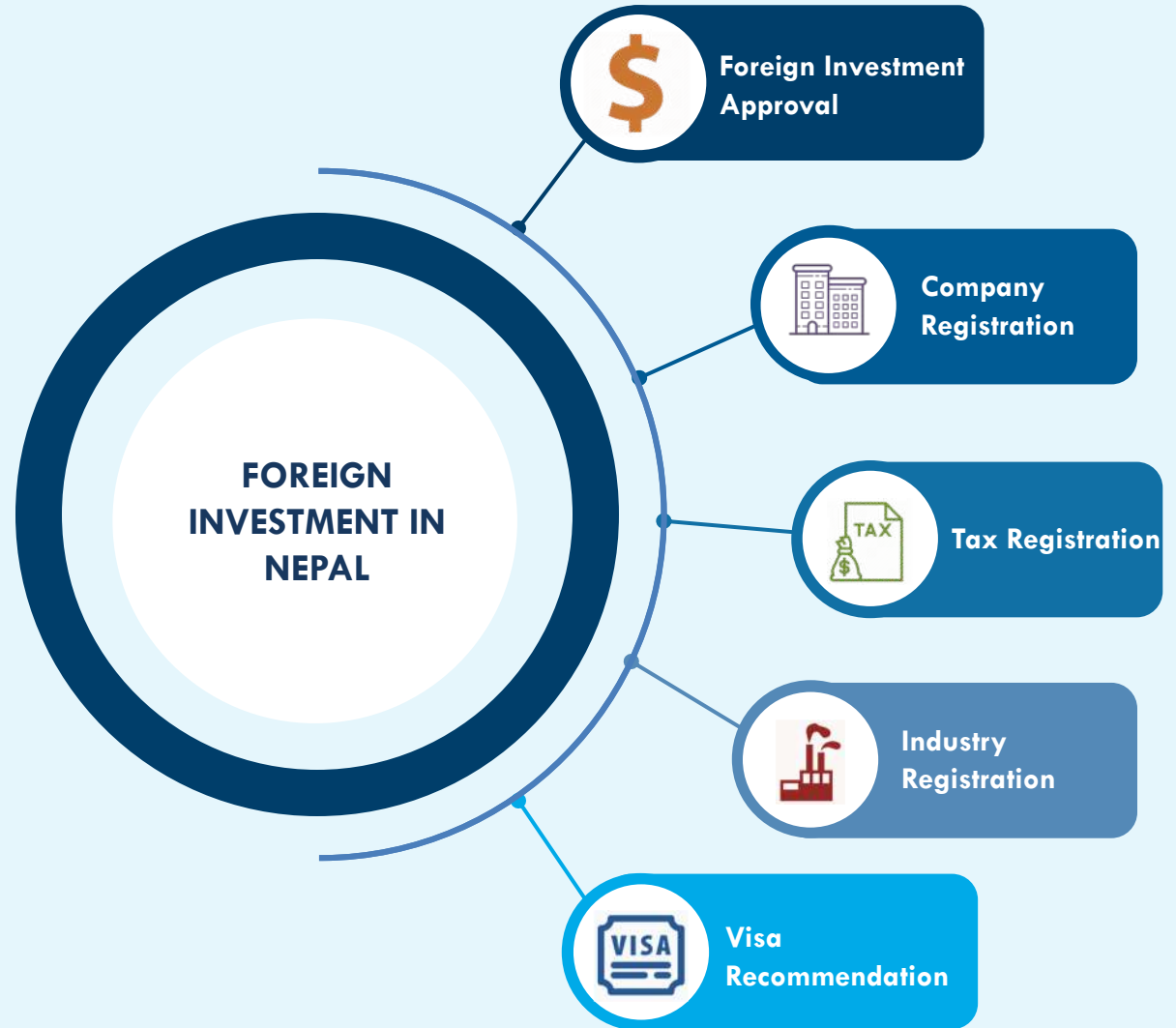
## FOREIGN INVESTMENT IN NEPAL

### General Overview

A Foreign investor can invest or operate a business in Nepal (i) by incorporating a limited liability company in Nepal, (ii) by acquiring shares of a limited liability company already in existence. Foreign investors can incorporate a private limited company or a public limited company. Private limited companies can also be incorporated with a single shareholder. At least seven shareholders are required to incorporate public limited companies. There is no provision for registration of limited liability partnerships.

The following picture shows general procedures for making investment by one or more Foreign investors by setting up a new limited liability company (includes both private and public companies) in Nepal with or without collaboration with a Nepalese investor:

### Investment in a New Company (Public and Private)



## STEPS IN FOREIGN INVESTMENT IN NEPAL

Submit Application and Documents to Investment Board Nepal( "IBN") or Department of Industries ("DOI")

Step 1

Register a company at Office of the Company Registrar ("OCR")

Step 3

Register as an industry at DOI

Step 5

Open a bank account at any commercial bank

Step 7

Allot share to Foreign Investor

Step 9

Obtain business specific license (if required) from relevant authority.

Step 11

Step 2

Obtain foreign investment approval from IBN, DOI or Industry and Investment Promotion Board ("IIPB")

Step 4

Register for tax at Concerned Inland Revenue Department ("IRD")

Step 6

Obtain foreign investment approval from Nepal Rastra Bank ("NRB")

Step 8

Transfer of amount of foreign investment by Foreign Investor

Step 10

Record the Foreign investment by NRB

Step 12

Secure Environmental clearance (if required) from relevant authority

## RELEVANT PROVISION FOR FOREIGN INVESTMENT IN NEPAL

### Regulation of Foreign Investment

The relevant laws dealing with matters related to foreign investment are:

- a) Foreign Investment and Technology Transfer Act 1992 (“FITTA”)
- b) Investment Board Act 2011 (“IBA”).
- c) Industrial Enterprises Act 2016 (“IEA”).
- d) Foreign Exchange (Regulation) Act 1962 (“FERA”).

Department of Industries (“DOI”), Industry and Investment Promotion Board (“IIPB”), Investment Board of Nepal (“IBN”) and Nepal Rastra Bank (“NRB”) are the main regulatory bodies with regard to foreign investment.

There is no restriction on who can invest in Nepal. It can be individuals, corporate entities or firms. However, in certain sectors like financial institutions, investment can be made only by foreign financial institutions.

### Share Investment

#### Sector open for Foreign Investor:

Nepalese law permits foreign investment in a wide range of activities and most of these sectors of business are open for investment. However, foreign investment is allowed only in industrial activities and not in trading activities. Nevertheless, IEA permits manufacturing companies to carry out the import activity within prescribed terms and conditions to examine the viability of the product in the Nepalese market. Foreign investment is permissible in sectors which are (a) classified as industry, and (b) sectors which are not included in negative list (the “Negative List”).

#### a) Industry Classification

Section 3 of the IEA classifies industry into eight categories and lists the nature of activities in each of these categories: (1) Energy Industry, (2) Manufacturing industry, (3) Agriculture and Forestry Industry, (4) Minerals Industry, (5) Construction Industry, (6) Tourism Industry, (7) Industry based on Information, Broadcasting and Communication, and (8) Service Industry.

The Government of Nepal (“GON”) can include business activities not included in any of the industry classification of the IEA. For this, the “GON” can publish a notice in the official Gazette upon recommendation of the IIPB.

#### b) Negative List

The negative list provided in the FITTA is included in Schedule A and Schedule B;

- “Schedule A”, which can only be amended by the Parliament by passing a law, and
- “Schedule B”, which can be amended by the GON by publishing a notice in the Nepal Gazette.

## RELEVANT PROVISION FOR FOREIGN INVESTMENT IN NEPAL

### Negative List in FITTA (Sectors where foreign investment is not allowed)

#### Schedule A

Cottage Industries

Personal Service Business (business such as Hair Cutting, Make-up, Tailoring, Driving training etc.)

Arms and Ammunition Industries

Explosives, Gunpowder

Industries related to Radio-Active Materials

Real Estate Business (however, foreign investment is permitted in construction industries)

Motion Pictures Business (in National Languages)

Security Printing

Currencies and Coinage Business or Bank Notes and Coins

#### Schedule B

Retail Business (However, foreign investment in retail business is permitted if-(a) such retail business has been operating as an international chain, (b) in at least three foreign countries. (There is no distinction between wholesale and retail business)

Bidi (investment in bidi manufacturing is permitted if more than 90 % of the production is exported)

Internal Courier Service

Atomic Energy

Poultry

Fisheries

Bee Keeping

Consultancy Services such as Management, Accounting, Engineering and Legal Services of more than Fifty One percent (51%). However, foreign investment in consultancy business is permitted if foreign ownership is limited to 51 per cent.

Beauty Parlor

Food and grain milling activities

Local Catering Services

Rural tourism

Foreign investment in certain regulated sectors like banking or insurance is permitted even if not classified as an industry. Foreign investment in these regulated sectors is governed by sector-specific laws.

## APPROVAL TO BE TAKEN FOR INVESTING IN NEPAL (1/3)

### Government approvals that are required for Foreign investors to invest in Nepal

Nepal has a dual approval system. The following government approvals are required:

- a. Approval from the DOI/ IIPB/IBN (the “Foreign Investment Approval”), and
- b. Approval from NRB (the “NRB Approval”).

The approving agency/authority for Foreign Investment Approval is different depending upon (1) the amount of fixed assets of the industry in which the Foreign investor makes investment, and (2) nature of the projects. As per the IEA, fixed assets of the industry include land, building, equipment, machinery, etc. but excludes working capital.

The table below presents the relevant Government authority that grants approval for Foreign investment:

| Industry  | Application to | Approval from | Approval from |
|---|----------------|---------------|---------------|
| Investment in an industry with fixed assets up to NPR 2 billion   | DOI            | DOI           | NRB           |
| Industry having fixed assets of more than NPR 2 billion (for projects that do not fall under the jurisdiction of IBN) | DOI            | IIPB          | NRB           |
| Foreign investment in specified projects under IBA  | IBN            | IBN           | NRB           |

Following are the projects that fall under the jurisdiction of the IBN:

| S. No. | Project   |
|--------|---|
| 1      | Fast track road, tunnel, railway line, rope-way, trolley bus as prescribed by the GON,  |
| 2      | Construction of international and regional airports and investment required for modernization and management of the existing airports,  |
| 3      | Solid waste management and treatment in urban areas,  |
| 4      | Chemical fertilizer production factories,   |
| 5      | Petroleum refinery plants,  |
| 6      | Large size bridges as prescribed by GON,  |
| 7      | a) Establishment of banks and financial Institutions with foreign investment of more than 51%<br>b) investment in establishment or operation of insurance and re-insurance companies with foreign investment of more than 51%,            |
| 8      | Medical colleges and hospitals or nursing homes with modern facilities having three hundred or more beds,   |
| 9      | Investment in hydropower production projects of 500 megawatt (MW) or more capacity,   |
| 10     | Development of special economic zone, export promotion or export refinement zones, special industrial zones or information technology parks,  |
| 11     | "Any infrastructure or service industry" with investment in fixed assets of NPR 10 Billion or more. Construction industry, minerals industry, tourism industry and aviation industry are defined as “infrastructure or service industry”. |
| 12     | Foreign investment in Manufacturing (production) industries having fixed asset of NPR 10 billion or more.   |
| 13     | Investment in projects prescribed by GON that do not fall in the category mentioned above in 1 to 12 (The GON has not made any classification as of this date).   |

## APPROVAL TO BE TAKEN FOR INVESTING IN NEPAL (2/3)

### Minimum amount required to be invested

The law has not imposed any minimum foreign investment. However, in practice, DOI has imposed requirement on a foreign investor to invest at least NPR 50,000,000 (approx. USD 500,000) by each investor to be eligible for foreign investment.

### Ceiling on foreign ownership

Most of the sectors like manufacturing, hotel, energy, construction areas are open for 100% investment by Foreign investors. However, there are certain sectors which has ceiling of foreign ownership, for example:

| S. No. | Sectors  | Maximum foreign ownership % | Relevant law  |
|--------|--|-----------------------------|---|
| 1      | Telecommunication Aviation   | 80                          | Telecommunication Policy, 1999.   |
| 2.     | Aviation<br>i. Domestic air passenger service<br>ii. International air passenger service | 49<br>80                    | Aviation Policy, 2006   |
| 3      | Consultancy works (such as: accounting, legal service, management and engineering)       | 51                          | FITTA   |
| 4      | Insurance  | 80                          | Directives on Registration of Insurer and Operation of Insurance Services 2016 (2073) |

### Time taken for an Foreign investor to obtain approval and set up business

It generally takes about 2-3 months to obtain approval from DOI and NRB and set up business in Nepal for Foreign investors. However, if approval from IIPB/IBN is necessary, it may take up to 6 months.

### Documents required to obtain foreign investment approval

Following documents are required to obtain foreign investment approval from DOI/IBN.

| S. NO. | DOI/IIPB/IBN Approval   | No. of Documents  | Language          |
|--------|---|-------------------|-------------------|
| 1.     | Application in standard format  | 1 Set (Original)  | Nepali            |
| 2.     | Joint Venture Agreement (if there is more than one investor)  | 1 Set             | Nepali or English |
| 3.     | Share Subscription Agreement or Share Purchase Agreement (if investing in an existing company)  | 1 Set             | Nepali or English |
| 4.     | Project Report outlining the project background, market aspects, technical aspects, financial aspects, details of sources of funds, etc.  | 2 Sets            | Nepali or English |
| 5.     | Copy of certificate of registration and other registration documents (Memorandum of Association ("MOA"), Articles of Association ("AOA"), etc.) of the Foreign investor (if company). | 1 Set             | Nepali or English |
| 6.     | Profile of the Foreign investor.  | 3 Sets (Original) | English           |
| 7.     | Financial credibility certificate issued by any bank in India.  | 3 Set (Original)  | English           |
| 8.     | Corporate resolution of the Foreign investor.   | 3 Set (Original)  | English           |
| 9.     | Bio-data with passport size photo of the representative of the Foreign investor.  | 5 Set             | English           |

## APPROVAL TO BE TAKEN FOR INVESTING IN NEPAL (3/3)

### Documents required to obtain foreign currency investment approval from NRB

Following documents are required to obtain foreign investment approval from NRB.

| S. No. | NRB Approval  | No. of Documents |                   |
|--------|---|------------------|-------------------|
| 1.     | DOI/IIPB/IBN Approval for foreign investment;   | 1 Set (Original) | Nepali            |
| 2.     | All other documents submitted to the DOI/IBN for the Approval of foreign investment   | 1 Set            | Nepali or English |
| 3.     | Approval required from the competent authority of India to make foreign investment in Nepal (if required).                        | 1 Set            | Nepali or English |
| 4.     | Copy of the decision of the local company (entity) accepting the foreign investment.  | 1 Set (Original) | Nepali            |
| 5.     | Incorporation Certificate, MOA, AOA, Permanent Account Number ("PAN") Certificate, Tax Clearance Certificate of the local company | 1 Set            | Nepali            |
| 6.     | Report of Credit Information Bureau evidencing that the local company is not blacklisted.   | 1 Set (Original) | Nepali            |
| 7.     | Commitment letter of the Foreign investor.  | 1 Set (Original) | English           |
| 8.     | Source of investment and the time schedule of investment by the Foreign investor.   | 1 Set (Original) | English           |
| 9.     | Audited financial statements of the Foreign Investor (if company) and passports of the directors of the Foreign investor.         | 1 Set            | Nepali or English |

### The refundable amount to be deposited at the time of Foreign Investment Approval

| Range of FA                           | Deposit (NPR) |
|---------------------------------------|---------------|
| Fixed assets ≤ 2,500,000              | 4,000         |
| 2,500,000 < Fixed assets ≤ 5,000,000  | 7,000         |
| 5,000,000 < Fixed assets ≤ 10,000,000 | 10,000        |
| 10,000,000 < Fixed assets             | 20,000        |





## REGISTERING AND COMMENCING BUSINESS (1/2)

Nepalese laws provide different business vehicles for doing business in Nepal. These business vehicles include private firm, partnership firm, limited liability company (private company or public company) and cooperatives. However, the most commonly used business vehicle is a private company.

### Registration of Business

An Foreign investor can register either a joint venture company, or a fully owned subsidiary company in Nepal upon obtaining foreign investment approval. For registration of company, the following key requirements need to be fulfilled:

- a. Name Reservation: The Foreign investor should apply for a name reservation at the online portal of the OCR [<http://www.ocr.gov.np/index.php/en/>].
- b. Submission of Documents: Once the name of the proposed local company is approved, an application for incorporation will need to be submitted electronically and physically to OCR, along with following documents:

| S. No. | List of Document   | No of copy         | Language         |
|--------|--|--------------------|------------------|
| 1.     | Application form   | 1 set (Original)   | Nepali           |
| 2.     | MOA of the local company   | 1 set (Original)   | Nepali           |
| 3.     | AOA of the local company   | 1 set (Original)   | Nepali           |
| 4.     | Agreement between the shareholders (if any)  | 1 set              | Nepali / English |
| 5.     | Copy of prior approval of foreign investment (i.e., approval from DOI/IIPB/IBN)  | 1 Copy (Notarized) | Nepali           |
| 6.     | Copy of certificate of registration and other registration document of Foreign investor (if Foreign investor is a company) | 1 Copy (Notarized) | Nepali / English |
| 7.     | Copy of passport of Foreign investor or representative of Foreign investor   | 1 Copy (Notarized) | Nepali / English |
| 8.     | Corporate resolution of Foreign investor regarding incorporation of local company (if Foreign investor is a company)       | 1 Copy (Notarized) | Nepali / English |

### Registration Fees

| Registration Fee for Private Company  |   | Registration Fee for Public Company    |  |
|---------------------------------------|---|--|--|
| Authorized Capital (NPR)              | Fee (NPR)   | Authorized Capital (NPR)               | Fee (NPR)  |
| 2.5 million upto 10 million           | 16,000/-  | For 10 million                         | 15,000/-   |
| More than 10 million upto 20 million  | 19,000/-  | More than 10 million upto 100 million  | 40,000/-   |
| More than 20 million upto 30 million  | 22,000/-  | More than 100 million upto 200 million | 70,000/-   |
| More than 30 million upto 40 million  | 25,000/-  | More than 200 million upto 300 million | 100,000/-  |
| More than 40 million upto 50 million  | 28,000/-  | More than 300 million upto 400 million | 130,000/-  |
| More than 50 million upto 60 million  | 31,000/-  | More than 400 million upto 500 million | 160,000/-  |
| More than 60 million upto 70 million  | 34,000/-  | More than 500 million                  | 3000/- for every additional 10 million exceeding NPR 500 Million |
| More than 70 million upto 80 million  | 37,000/-  |  |  |
| More than 80 million upto 90 million  | 40,000/-  |  |  |
| More than 90 million upto 100 million | 43,000/-  |  |  |
| More than 100 million                 | 30/- for every additional 0.1 million exceeding 100 million |  |  |

## REGISTERING AND COMMENCING BUSINESS 2/2

### Tax Registration

Every company is required to register for tax (PAN) with the IRD. It generally takes around 1-2 days. The following documents need to be submitted to the IRD for tax registration:

| S. No. | List of Document   | No. of Documents  | Language |
|--------|--|-------------------|----------|
| 1.     | Application form   | 1 Set (Original)  | Nepali   |
| 2.     | Registration Certificate, MOA, AOA of the local company                    | 1 Set             | Nepali   |
| 3.     | Corporate Resolution of the local company to register for PAN              | 2 Sets            | Nepali   |
| 4.     | Copy of prior approval of foreign investment                               | 1 Set (Notarized) | Nepali   |
| 5.     | Copy of rent agreement or land ownership document of the registered office | 2 Sets            | Nepali   |
| 6.     | Map of Business Location   | 1 Set (Original)  | Nepali   |
| 7.     | Photograph and passport of authorized representative                       | 5 Set and 1 Set   | Nepali   |

### Industry Registration

The company also has to be registered as an industry with the DOI. It generally takes around 1-2 days. Following documents need to be submitted for industry registration along with the government fee of NPR 100:

| S.No. | List of Document   | No. of Documents | Language |
|-------|--|------------------|----------|
| 1.    | Application  | 1 Set (Original) | Nepali   |
| 2.    | Copy of certificate of registration and MOA and AOA of the local company         | 1 Set            | Nepali   |
| 3.    | Corporate resolution of the local company to register the company as an industry | 1 Set            | Nepali   |

### Opening of bank account

Foreign investors are required to transfer their investment amount to the bank account of the local company. In order for the local company to open a bank account, a decision of the board of directors, along with signatories, will need to be submitted along with other documents such as certificate of registration of company, MOA, AOA, PAN certificate etc.

### Business specific license (if required)

A private company can commence its business once it is registered. Only certain types of businesses require a business-specific license. For example, energy, telecommunication services, banking, insurance, travel etc. require license from the specified government agency or regulator. In addition to applicable licenses, a public limited company is required to obtain a certification of commencement of business from the OCR before starting the business.

| Sector                                   | License Authority                     |
|--|---------------------------------------|
| Hydropower                               | Department of Electricity Development |
| Banking and Financial Institutions       | NRB                                   |
| Information and Communication Technology | Nepal Telecommunication Authority     |
| Transport                                | Department of Roads                   |
| Education                                | Department of Education               |
| Health Care                              | Department of Health Services         |
| Agriculture                              | Department of Agriculture             |
| Tourism                                  | Department of Tourism                 |
| Mines and Minerals                       | Department of Mines and Geology       |

After the money is received by the local company, the money has to be capitalized and the shareholder register of the local company has to be recorded and certified at the OCR.

### Environmental Clearance

Only certain industries that may have an impact on health and the environment are required to obtain environmental clearance.

There are two types of environmental studies: Initial Environment Examination (“IEE”) and Environmental Impact Assessment (“EIA”). The Environment Protection Rules 1998 has listed the industries which are required to conduct IEE or EIA. The list of industries required to conduct IEE and EIA are regularly updated by the GON by publishing a notice in the official Gazette.

Generally EIAs are conducted in large scale projects like hydropower generation plants with capacity of more than 50 MW whereas hydropower generation projects with capacity of less than 50 MW are required to conduct IEE. Similarly, hotels with 50-100 beds are required to conduct IEE and hotels with more than 100 beds have to conduct EIA. Further, the law also provides for requirement to obtain pollution control certificate. However, this provision has not been implemented in actual practice.

## TAXATION ASPECT FOR NEW COMPANY (1/2)

### Applicable laws governing taxation in Nepal

The Income Tax Act 2002 (2058) (“ITA”) and the Income Tax Rules 2003 (2059) (“ITR”) deal with the matters related to Direct Tax in Nepal. The laws dealing with matters related to Indirect Tax are as below:

- Value Added Tax Act, 1995 (2052) (“VAT Act”) and the Value Added Tax Rules, 1996 (2053) (“VAT Rules”),
- Excise Duty Act, 2002 (2058) (“Excise Duty Act”) and Excise Duty Rules, 2002 (2059) (“Excise Duty Rules”).
- The Customs Act and Customs Rules also impose customs duty applicable to the import and export of goods to and from Nepal.

The VAT Act and VAT Rules deal with the VAT applicable on the goods and services in Nepal. The VAT Act defines the goods and services that are subject to VAT. The VAT Act has listed certain goods and services in its Annexure-1 as VAT exempt whereas certain goods and service listed in Annexure-2 are subject to VAT at the rate of 0%. The VAT Act prescribes a uniform rate of thirteen (13) percent VAT for all type of transactions.

### VAT registration requirement in Nepal

The VAT Rules provide the threshold of the transaction that triggers VAT registration. However, the firm or company whose transaction volume does not trigger the said threshold can also choose to get registered at VAT.

| Nature of Business   | Annual Transaction                                 |
|--|--|
| In case of a person that transacts goods                   | Above NRs 5,000,000 (Nepalese Rupees Five Million) |
| In case of a person that provides services                 | Above NRs 2,000,000 (Nepalese Rupees Two Million)  |
| In case of a person that transacts both goods and services | Above NRs 2,000,000 (Nepalese Rupees Two Million)  |

### Prevailing tax rates applicable to business entities

| Industries  | Prevailing Tax Rates           |
|---|--------------------------------|
| <ul style="list-style-type: none"> <li>▪ Manufacturing Industries and Hydropower Industries;</li> <li>▪ Income earned from operation of Special Industries, construction and operation of Roads, Bridge, Tunnel, Rope-Way, Fly overs and operation of Trolley Bus or Tram;</li> <li>▪ Income earned by Cooperatives registered under Cooperatives Act 2017 from transactions other than tax exempt transactions</li> <li>▪ Income earned from export</li> <li>▪ The taxable income of an entity engaged in such projects to build own, operate and transfer the public infrastructure to the GON</li> </ul> | 20%<br>(Concessional Tax Rate) |
| General Corporate Tax   | 25%                            |
| Industries relating to Cigarette, Tobacco, Cigar, Liquor, Beer, Banks, Financial Institutions, General Insurance Business, Petroleum and businesses relating to Telecommunication and Internet Service, Money Transfer, Capital Market, Stock Exchange, Merchant Banking, Commodity Future Market, Stock Exchange and Commodity Broker Business.  | 30%                            |

## TAXATION ASPECT FOR NEW COMPANY 2/2

### Double Taxation Treaty with Nepal

Nepal signed its first Double Taxation Avoidance Agreement with the neighboring country India way back in January 18, 1987. Prior to that, the provision of giving deduction in foreign tax already existed through the Income Tax Act, 1974 but the provision of foreign tax credit has been introduced through tax treaties with various countries thereafter.

After India, second tax treaty was signed with Norway in 1996. Further, bilateral tax treaty has already been signed with other nine countries till date which are Thailand, Sri Lanka, Mauritius, Austria, China, Qatar, Bangladesh, Korea and Pakistan, among which Bangladesh being the most recently agreed country i.e. on March, 2019. So, till date Nepal is in agreement with total of 11 countries. As per the Inland Revenue Department (IRD) report, the negotiation work is in process with other countries like: Singapore, Malaysia, UK and Oman.

### List of the Countries with DTAA

- |              |                |
|--------------|----------------|
| 1. India     | 9. Sri Lanka   |
| 2. Norway    | 10. Pakistan   |
| 3. Thailand  | 11. Bangladesh |
| 4. Qatar     |                |
| 5. Mauritius |                |
| 6. Korea     |                |
| 7. Austria   |                |
| 8. China     |                |

## Summary of DTAA

| S.N. | Heads                   | Rate (up to)   | Applicable Jurisdiction   |
|------|-------------------------|--|---|
| 1    | Dividend                | 5% if the beneficial owner is a Company holding at least 10% of the shares of the Nepali Entity<br>10% in all other cases (Rate Applicable in the Contracting State e.g. Nepal ) | Both  |
| 2    | Interest                | 10%<br>(Rate applicable in the Contracting State, e.g. Nepal)  | Both  |
| 3    | Royalties               | 15%<br>(Rate applicable in the Contracting State e.g. Nepal)   | Both  |
| 4    | Permanent Establishment | 5%<br>(In Nepal as per ITA)  | Country where PE is established.  |
| 5    | Business Profits        | 25%<br>(In Nepal as per ITA)   | Country of the incorporation of the company.                            |
| 6    | Capital Gains           | 25%<br>(In Nepal as per ITA)   | Country where the Company whose shares are being alienated is resident. |



Disclaimer:

The information contained in this document is compiled by NBSM and is exclusively for the information of its clients and staffs. However the detail study is recommended before taking any decisions on the matters contained herein.

**NBSM CONSULTING  
PRIVATE LIMITED**

Four Square Complex  
Narayan Chaur, Naxal, Kathmandu, Nepal  
T : 977-1-4433069 | 4415242

E : [info@nbsm.com.np](mailto:info@nbsm.com.np)

W : [www.nbsm.com.np](http://www.nbsm.com.np)

