

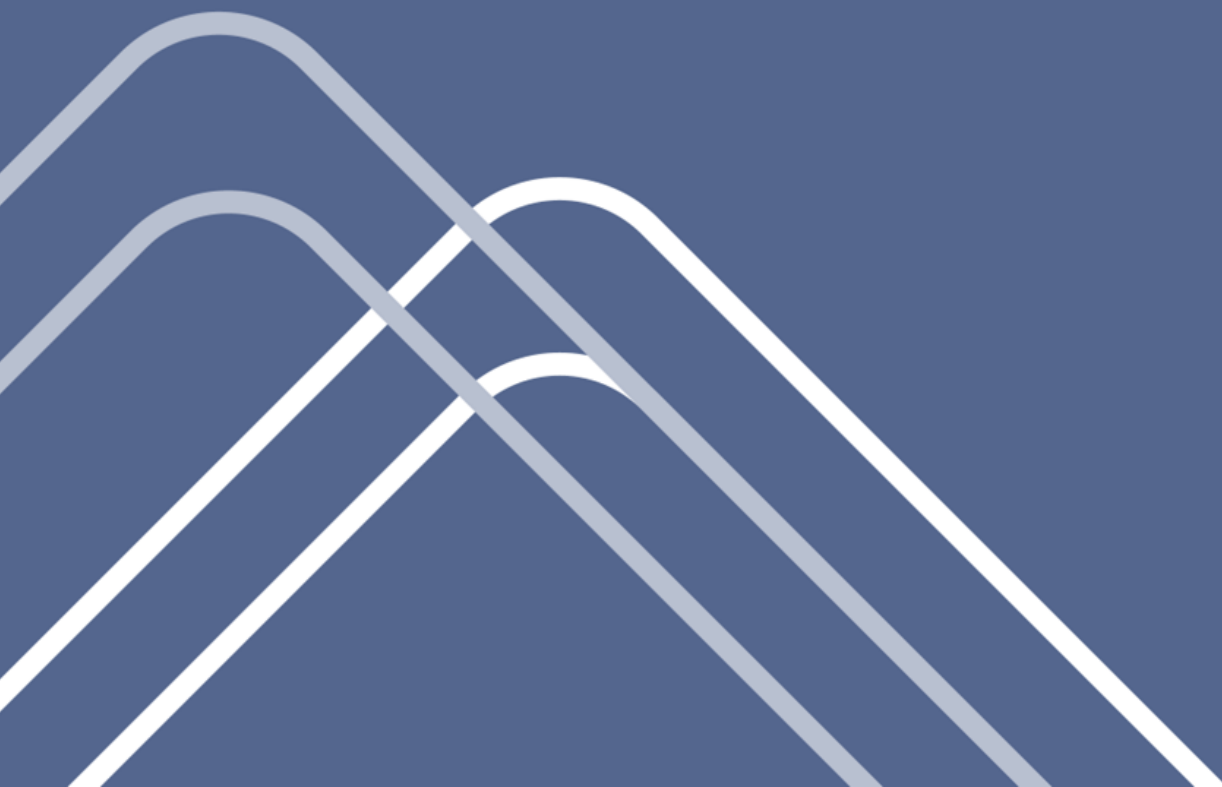


DOING BUSINESS IN NEPAL



Contents

Introduction	1
Business Environment	2
Foreign investment	6
Setting up a business	7
Labour	8
Taxation	12
Accounting and reporting	23
UHY in Nepal	25



INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 100 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Nepal has been provided by the office of UHY representatives:

UHY SUVOD ASSOCIATES

357/55 Ganeshmarg, Shankmul
New Baneshwor, Kathmandu-31
Nepal

Phone +977-1-5242214

Website www.suvodassociates.com.np

Email info@suvodassociates.com

You are welcome to contact [Akash Suman \(akash@suvodassociates.com\)](mailto:akash@suvodassociates.com) for any inquiries you may have.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current in March 2025

We look forward to helping you do business in Nepal.

BUSINESS ENVIRONMENT

BACKGROUND

Located at the southern lap of Himalayas and placed between two rapidly growing economies China & India, **Nepal** or as it is officially known the **Federal Democratic Republic of Nepal** is one the fastest growing countries in South Asia. Strategically located between two of the largest economies China & India, Nepal presents itself with a huge opportunity with easy access to these markets.

With an economically feasible capacity of producing power of 43000 MW out of the overall 83000 MW, Nepal attracts investors with one of the world's largest source of producing renewable source of electricity. Also known as the land of Everest, Nepal has 8 of the world's tallest 10 mountains including Mt. Everest, the tallest in the world. Nepal also has some of the most beautiful places and a wonderful wildlife experience which is why it was placed as the best value destination by lonelyplanet.

POPULATION

The population of Nepal is 29,164,578 as on November 25,2021, based on the Nepal Census with average population density of 198 per square kilometre.

GEOGRAPHY

Nepal is a landlocked country in South Asia, bordered by China to the north and India to the south, east, and west. It covers an area of 147,516 square kilometers and features a diverse topography ranging from the flat plains of the Terai region in the south to the towering Himalayan mountains in the north, including Mount Everest (8,848.86 meters), the world's highest peak.

Nepal is generally divided into three geographical regions:

1. **The Terai (Southern Plains)** – A fertile lowland region, home to agriculture and industrial hubs.
2. **The Hills (Middle Region)** – Characterized by valleys, including the Kathmandu Valley, and moderate climatic conditions.
3. **The Himalayas (Northern Region)** – Home to some of the world's highest mountains, including Everest and Kanchenjunga, with a cold alpine climate.

The country's rivers, such as the **Koshi, Gandaki, and Karnali**, provide hydroelectric potential, making Nepal rich in water resources.

CURRENCY

Nepalese Rupees is the currency of Nepal. The country's monetary policy is guided by Nepal Rastra Bank. The currency notes are of various denominations. The Nepalese Rupee has a fixed conversion rate with the Indian Rupee (1 INR = 1.6 NPR).

LANGUAGE

There are over 100 languages spoken in Nepal. However, Nepali is the official language of Nepal. English is commonly used foreign language. There are other languages too that are widely spoken in Nepal such as Maithili, Bhojpuri, Awadhi, Newari, Tamang etc.

MAJOR EXPORTS

Nepal mainly exports Yarns, Iron, Steel, knotted carpets, Readymade Garments, Jute, Tea, Coffee, Cardamom, Woollen and Pashmina Products plastics, Ayurvedic Products among others. Nepal's main trading partner is India (accounting for 66 percent of all exports). Others include Bangladesh, Germany, USA, Turkey, France, Canada, UK, China, Australia, Denmark and Japan. Agricultural products lead Nepal's exports at 54%, followed by handicrafts at 20%, forming the backbone of the country's merchandise trade.

MAJOR IMPORTS

Major import of Nepal are Petroleum Products, Iron and Steel, Machinery Parts, Automobile, Textile, Pharmaceutical products, Cement, Electronic Appliances, Food Products, etc. Nepal's main imports partner is India (accounting for 58 percent of all imports). Others include China, Indonesia, Argentina, Malaysia, Japan, Thailand, USA, Korea Republic, United Arab Emirates and Germany.

EDUCATION – PRIMARY AND SECONDARY

Nepal's school education system is divided into:

1. **Primary Level (Grades 1–5)** – Covers basic literacy, numeracy, and fundamental knowledge in subjects like Nepali, English, mathematics, and science.
2. **Lower Secondary Level (Grades 6–8)** – Expands on foundational subjects with additional coursework in social studies, health, and vocational skills.
3. **Secondary Level (Grades 9–12)** – Includes two phases:
 - **Secondary Education (Grades 9–10)** – Leads to the Secondary Education Examination (SEE), previously known as the School Leaving Certificate (SLC).
 - **Higher Secondary Education (Grades 11–12)** – Offers streams such as Science, Management, Humanities, and Education, leading to a National Examination Board (NEB) certification.

Key Features:

- The government provides free and compulsory basic education (Grades 1–8).
- Secondary education is expanding with increased private school participation.
- English is the common medium of teaching in urban schools with rural schools slowly adapting the same.

TERTIARY EDUCATION

Higher education in Nepal is provided by universities, colleges, and technical institutions. Major universities include:

1. **Tribhuvan University (TU)** – The oldest and largest public university.
2. **Kathmandu University (KU)** – A leading private university known for its quality education.
3. **Purbanchal University (PU) & Pokhara University (PoU)** – Offer diverse programs in business, engineering, and humanities.
4. **Mid-Western, Far-Western, and Lumbini Buddhist Universities** – Newer institutions focusing on regional and specialized education.

HEALTH CARE SYSTEM

Health Care System of Nepal is managed by Ministry of Health (MOH). MOH is responsible for making necessary arrangements and formulation of policies for effective delivery of curative services, disease prevention, health promotion and establishment of primary health care system. There are various national, regional, zonal & district hospitals to provide health services to people at national, regional, zonal & district levels.

Nepal's health care sector also has the potential to export services. As the country's economy grows, the demand for quality health services will also grow. Health Care system in Nepal has widened to the inclusion of private sector such as non-government organisation (NGO), care provided by missionaries, Red Cross, local NGOs, medical practices by private doctors, nurses & licensed pharmaceutical sellers. Nepal adopted national health policy in 2004 to ensure free basic health services and in 2014, Nepal took significant step to strengthen its healthcare system by launching the Free Health Care Program.

COMMUNICATIONS

Nepal has integrated itself fully with the changing world. It has enough flexibility in itself to come in terms with modern technology and changes. The same stands true for communication medium as well. Nepal has a good network of Telephones and Internet. Apart from that, State-run as well as Private-operated channels and radio stations are in ample numbers in Nepal. Digital media, including online news portals and social media platforms, have further strengthened the communication sector.

Nepal's communication sector is one of the fastest emerging sectors in the country, with huge potential for growth in the coming years. All the services related to the ICT sector are open to foreign direct investment, except for media. For telecommunications, up to 80% foreign ownership is allowed.

BANKING AND FINANCIAL SERVICES

Largely owing to the remittance market, the number of financial institutions has expanded dramatically. Presently Nepal has 20 commercial banks, numerous development banks, finance companies and financial intermediaries' non-governmental organization (FINGO) licensed by Nepal Rastra Bank. The banking sector now provides banking services through approximately 11,545 branches across the country.

Nepal has witnessed rapid growth in the number of banks and financial institutions (BFIs) since financial liberalization in the mid-1980s. This policy has encouraged foreign banks to enter the Nepalese market through joint ventures.

Nepal Rastra Bank (NRB), Nepal's central bank, licenses the principal sector institutions including commercial banks, development banks, finance companies, and micro credit development banks and other institutions. It also supports and is responsible for cooperatives and financial non-government organizations (NGOs) which it licenses to undertake several limited banking transactions. Finally, it also regulates savings and credit institutions.

TRANSPORTATION LINKS

Nepal being a landlocked country, the most commonly used modes of transportation are road and air transport. Mahendra highway is the longest highway where most districts of Terai are linked. At present, Nepal has road access to most parts of Nepal.

The transportation sector in Nepal contributes 8.08% of GDP and grew at a rate of 7.27% in 2023/24. The average growth rate of the sector in the last decade is 6.5%. By 2023/24, there were approximately 45000 km of strategic road which includes approximately 12000 km black topped roads, 18000 km graveled roads, and 15000 km earthen (Fair Weather) roads. Additionally, there are 4104 bridges in operation. Nepal also has 35 operating among the 54 domestic airports and 2 international airport in Kathmandu and Bhairahawa. Waterways and Railways networks are being developed to facilitate trading facilities throughout the nation.

LAND AND BUILDING

There are four types of landholdings in Nepal. They are

- i. **Private ownership:** Private ownership is the principal form of landholding. It is similar to a freehold system where a land ownership certificate is issued to the individual or company who owns the land.
- ii. **Trust Land Ownership:** Trust land ownership, is a land held under a trust that is endowed by any philanthropist through relinquishment of his or her title to immovable property fund to a trust for the operation of any social or religious cause.
- iii. **Tiller tenancy:** Tiller tenancy land belongs to the private owner, but the tenant and his/her family acquire the right to cultivate and use the land.
- iv. **Government & Public Land:** Government land includes roads, paths, railways and land with government houses, temples, monasteries, buildings or offices. Government land also includes forests, shrub lands, jungles, rivers, streams and marshlands not belonging to anyone, as well as lakes and ponds and their banks, canals and channels, waste and uncultivated lands, lands located on sharp hill sides and paths and sand vacated by river, which are owned by the Nepal government or declared as public lands, and published in the 'Nepal Rajpatra'.

Companies wholly or partly owned by foreign investors may acquire land for their business purposes (e.g., to establish a factory or a hotel or to provide residence to their workers). No specific permission is needed from the government to do so, provided that purchasing land is listed in the project report submitted when obtaining the foreign investment approval.

HOLIDAYS IN NEPAL

Nepal observes a mix of public, religious, and cultural holidays, reflecting its diverse ethnic and religious communities. Many holidays follow the lunar calendar, so dates change each year. The country officially follows the **Bikram Sambat (BS) calendar**, which is ahead of the **Gregorian calendar** by about 56-57 years.

Saturday is the official weekly holiday in Nepal

<https://www.cia.gov/library/publications/resources/the-world-factbook/nepal>

<http://data.worldbank.org/country/nepal>

FOREIGN INVESTMENT

Nepal has been pursuing a liberal foreign investment policy and been striving to create an investment-friendly environment to attract FDIs into the country. Hydropower, industrial manufacturing, services, tourism, construction, agriculture, minerals and energy are the profitable areas of investment. Nepal encourages foreign investment both as joint venture operations with Nepalese investors or as 100 per cent foreign-owned enterprises. Approval of the GON is required for foreign investment in all sectors. No foreign investment is allowed in few sectors for which have been provided in a negative list.

In Nepal, the sectors that have attracted the major interest of foreign investors are:

- Hydropower
- Tourism
- Transportation
- Medical tourism
- Mining & Minerals
- Manufacturing
- Information Technology

Foreign Investment can be made in any industry in following forms in Nepal:

- i. Investment in shares (equity);
- ii. Reinvestment of the earnings derived from equity;
- iii. Investment made in the form of loans or loan facilities;
- iv. Investment in kinds, e.g. machineries and equipment;
- v. Real estate investment.

As a member of WTO and the Multilateral Investment Guarantee Agency (MIGA), Nepal has signed the Bilateral Investment Protection and Promotion Act (BIPPA) with six countries - including India - to encourage FDI inflows. Foreign investment in Nepal is regulated and administered by the Foreign Investment and Technology Transfer Act and Industrial Enterprises Act.

SETTING UP A BUSINESS

Foreign Investment Technology Transfer Act 2075(FITTA) allows foreigners to invest only in companies (private limited, public limited, joint ventures and wholly foreign owned enterprises) registered with the Company Register Office (CRO). They are not allowed to invest in proprietorship or partnership firms.

TYPES OF COMPANIES

There are two types of companies open for foreign nationals in Nepal. They are:

PRIVATE LIMITED COMPANY:

Private Limited Company means a company which by its articles:

- i. Limits the number of shareholders to 50
- ii. Cannot make an invitation to the general public for shares subscription
- iii. A private company can only have a maximum of eleven directors.

PUBLIC LIMITED COMPANY:

Public Limited Company means a company that:

- i. Has a minimum of 7 shareholders and no maximum limit
- ii. Has a minimum paid-up capital of NPR 10 million
- iii. May also offer shares to the public at the Nepal Stock Exchange (NEPSE) under the Companies Act and Securities Act.

LABOUR

The investors setting up business in Nepal need to be abided by the labour laws of Nepal.

This segment gives a synopsis of the labour laws contained in labour laws 2017.

Working Hours

The permissible working hours for employees are eight hours per day or forty-eight hours per week and they shall be provided one day as weekly holiday for every week.

Intervals for Refreshment and Rest

An interval of half an hour shall be provided to employees or workers at least after 5 hours continuous work.

Extra Wages for Overtime

Where any worker or employee is engaged to work for more than eight hours in a day or forty-eight hours in a week, he/she shall be paid overtime wages at the rate of one and one-half time of his/her ordinary rate of wages.

Attendance Register to be kept

Each Enterprise shall keep attendance register of its workers and employees.

Working age

A person must be over the age of 16 to be hired for employment. A child under the age of 14 cannot be employed under any circumstance. A child between the age of 14 and 16 can be employed for up to 6 hours a day.

Hiring

The Labour Act has flexibility in hiring employees through different modes as per the requirement of the entity: regular employment, task-based employment, casual worker and time-bound workers, including short-term workers and part-time workers. Likewise, outsourced labourers can also be engaged in works other than the core work of the entity. The work that can be carried out by the outsourced labourers is as prescribed in the Nepal Gazette.

Wages and Benefits

As per the section 106 of the Labor Act, 2017, the following minimum wages have been prescribed:

Minimum Wages (Other than Tea Estate)

S.No.	Duration	Basic Wages (NPR)	Dearness Allowance (NPR)	Total (NPR)
1	Monthly	10,820	6,480	17,300
2	Daily	418	250	668
3	Hourly	56	33	89

For Part time workers, the hourly rate is NPR 95.

Minimum Wages (For Tea Estate)

S.No.	Duration	Basic Wages (NPR)	Dearness Allowance (NPR)	Total (NPR)
1	Monthly	8,934	4,959	13,893
2	Daily	323	177	500
3	Hourly	43	23	66

Daily Allowances of NPR 63 should also be provided for positions such as Tea Processing sardar, Naike and Guard.

The company may fix the period of payment of remuneration to the workers or employees on weekly, fortnightly or monthly basis in way not exceeding the period of one month. Both male and female shall be entitled to equal remuneration. In addition, other benefits Provident Fund, Social Security benefits and Gratuity should be provided as per relevant laws.

Safety & Health Agreement

Where 20 or more employees are engaged, employer shall constitute a Safety and Health Committee.

Public Holidays and Leave

- All workers are entitled to one-day holiday a week (usually Saturday) and 13 public holidays a year.
- 13 public holidays and 1 public additional holiday (International Women Day) for female employees.
- An employee is entitled to 18 days of fully paid home leave a year, or 1 day of home leave for every 20 days of work.
- Workers are entitled to 12 days sick leave on full pay in a year.
- Female workers are entitled up to 14 weeks of leave, during pregnancy or after delivery of a child. Out of which 60 calendar days (weekly and public holidays counted in this period) of leave with full pay. Likewise, male workers are entitled to 15 calendar days (weekly and public holidays counted in this period) of leave with full pay as paternity leave.
- Workers are also entitled up to 13 days of mourning leave, provided their religion demands such mourning, on the demise of their spouse or parents/ parents-in-law.
- Provision of leave in lieu for employees who work on public or weekly holidays.

Holidays are not a right, but only a facility (which can be more than listed above as per the company's policy) and as such, the employees must seek permission to take leave, except in the case of illness of the employee, delivery of a child, or demise of a spouse or parents/parents-in-law.

Welfare Fund

The Enterprise shall have to establish a Welfare Fund for the welfare and benefit of the workers or employees.

Provident Fund & Gratuity

Workers since the first day of employment are eligible to be provided with welfare and social security benefits. The employer must deduct 10% of an employee's salary, match that amount and deposit the combined sum in the employee's provident fund.

Every enterprise must pay a gratuity at the rate of 8.33% of basic remuneration every month to its employees. Such amount must be deposited in social security fund.

Insurance

Each employee is entitled to accidental insurance of at least Rs. 7,00,000 covering all types of accidents and annual medical insurance of Rs. 1,00,000 the premium of which is to be shared equally by the employee and the entity. The premium of accidental insurance is to be paid by the employee fully.

Compensation

In case any worker or employee of the Enterprise is physically wounded or seriously hurt or dies in course of his/her work, the compensation shall be paid to him/her or to his/her family from insurance amount.

Misconduct

If any worker performs misconduct of any sort, the employer may take disciplinary measure depending upon the severity of misconduct.

These punishments include warning, withholding of annual salary increment for one year or withholding promotion for one year, deduction of one day remuneration and dismissal from service. The Labour Act also provides that sexual harassment in the workplace is subject to disciplinary action up to dismissal from service.

Retrenchment

As per the Labour Act, workers can be retrenched as agreed with the Trade Union or Labour Relation Committee in the absence of Trade Union. Where the agreement cannot be reached with the Trade Union or the Labour Relation Committee, employees can be retrenched by giving information to the Labour Office.

Employees are entitled to the retrenchment compensation at the rate of one-month salary for each year of service. The compensation is paid on a proportionate basis for services rendered below one (1) year. The employee who is paid unemployment allowance is not entitled to the retrenchment compensation. The retrenchment provisions do not apply to entities with fewer than Ten employees.

Festival Allowance

Every enterprise must pay an amount equivalent to the monthly remuneration once a year as a festival allowance and the employee not completing 1 (one) year service is entitled to the allowance on a proportional basis.

Trade union rights

Nepal's constitution and laws provide the right to form a trade union. Workers and other non-managerial employees can be part of the trade union. The union can submit claims or demands, enter collective bargaining, or resort to strikes by following a prescribed procedure. Employees are allowed to hold strikes to press their demands and ask employers to address them by conducting bilateral talks. Likewise, the workers who hold protests following the legal framework will be paid half a day's wages even though no work is done. The management can resort to lockout by following the procedures laid out in the Act and rules, which includes taking permission from the government. The Act and rules also provide procedures for resolution of workplace conflicts

Labour offices

There are labour offices at different locations across the country. As there is no separate entity prescribed by law to manage the operation of factories, these offices also act as factory inspectors.

Social Security System

New Social Security Scheme has been introduced by the Government of Nepal through the Social Security Regulation 2018. Employers are required to be registered with the Social Security Fund within the provided timeframe. The Contribution Structure towards the Social Security Fund are as below:

Contributor	Percentage of Basic Salary
Employee	11%
Employer	20%
Total	31%

TAXATION

Enterprises setting up business in Nepal need to be abided by the tax laws of Nepal.

Income is taxed in accordance with the provisions of the Income Tax Act 2002.

All persons with assessable income are required to register with the Inland Revenue Office (IRO), obtain a Permanent Account Number (PAN) and file a tax return annually.

Objective of Nepalese Income Tax

The main objective of Nepalese income tax system is to increase revenue mobilization through an effective revenue collection procedure in order to ensure the economic development of country. Companies are subject to a flat rate of tax, whereas individuals are taxed at progressive rates.

Tax Registration

Any person having business income (Except obtaining final withholding taxed income only) requires registering in Permanent Account Number (PAN) with the taxation authority before obtaining any business income. The application requires lodging on prescribed format (now online form).

For the business attracting Value Added Tax (VAT), one should apply for VAT within thirty days from crossing of prescribed threshold. Now in 2025, prescribed threshold for VAT is transaction of goods more than Rs. 5 million, services or mixed transactions Rs 3 million and importers are required to register for VAT regardless of their annual turnover. A Person registered in VAT obtains input tax credit on capital expenditure too. Therefore, it is favourable to obtain VAT registration before any threshold consideration to obtain input tax on early investments too.

For the business attracting excise duty, one should apply for excise permissions before starting the business.

According to legal provision, time-span for registration is thirty days from date of application. However, practically it is a single day work if applicant files the documents as prescribed in application form.

Apart from federal tax registration, a person is required to register its business in respective local authorities too. However, their registration is easy as well as they levy a presumptive tax in minor scale only.

Minimum Compliance Required after Registration

There are a few compliance requirements; failure to comply with these may attract fines and penalties. A registered person needs to comply with following minimum requirements:

- i. Display its registration certificate in the main business place (practically copy of certificate is also acceptable)
- ii. Display a tax- plate (10 cm* 30 cm) in the main business place.
- iii. Use PAN for the tax related documents and bank loan application if any.
- iv. Maintain books of Accounts and supporting thereto.
- v. File monthly withholding tax return and monthly VAT return, if registered in VAT.
- vi. File estimated tax return within six months of tax year.
- vii. Pay instalment of tax in three instalments (Six months, Nine months, twelve months)

- viii. File annual tax return within three months from end of tax year, extendable further three months.
- ix. Submit the information as seek from taxation authority.

Documentation

In either case of setting up a foreign branch or subsidiary or liaison office, it requires maintaining sufficient documentation regarding its corporate decisions, financial transactions and foreign exchange transactions. They need to prepare books of accounts, either in Nepali or in English. The books of accounts must be audited by a person having certificate of practice on auditing.

The documents that are not in Nepali or English need to be translated into Nepali or English. In the practice, translation into English is accepted.

Each type of form of set up requires filing their corporate returns to Company registrar and tax return (Even zero tax return) to the taxation authority.

The documents relating to a transaction must be retained for six years from end of concern fiscal year.

Source Rule for Income or Expenses

Determination of source income is based on two rules:

- Payment from resident, or
- Payment for activities in location in Nepal

Proceeds from sale of trading stock or cost for it is deemed expenses in Nepal, if disposed trading stock is in Nepal at the point of disposal.

Interest, dividend, governmental employment, retirement payments, annuities, or other investment returns are deemed to have source in Nepal if paid by a resident of Nepal.

Other income or associated expense to that income is deemed to have source in Nepal based on the location of the payment base. For e.g.: right to use or restriction on use on assets such as rent, royalty, insurance, risk, service rendered, cross border data transmission from equipment installed in Nepal.

Cross border transport initiating from Nepal is deemed to have source in Nepal, but it excludes transshipments in Nepal

Income from any other activities within Nepal is deemed to have source in Nepal.

For expense, all the expenses as per matching concept of income having source in Nepal are deemed to have source in Nepal.

Taxable income

The taxable in an income year of a person shall be equal to the amount assessed by deducting the amount claimed for deduction from the total assessable income earned from each of the following heads of income in that year:

- a. Business income;
- b. Employment income;
- c. Investment income; and
- d. Windfall gains.

Profits & gains made by a person in a financial year by conducting a business shall be calculated by including the following amounts received by him in that year:

- a. Service fee;
- b. Amounts derived from the disposal of trading stock;
- c. Net gains from the disposal of business assets or liabilities;
- d. Gain on the disposal of all depreciable assets in a pool of assets;
- e. Gifts received in respect of the business;
- f. Amounts derived as consideration for accepting a restriction on the capacity to conduct business; and
- g. Amounts derived that are effectively connected with the business and that would otherwise be included in income from an investment.

In computing the income from business or investment, all actual costs are deductible to the extent they are incurred during the year by the entity in the generation of income from the business. The following methodology is available for the valuation of inventory:

- a. Prime cost or absorption cost method in case of cash accounting system;
- b. Absorption cost method in case of accrual accounting system; or
- c. Choice between first-in first-out method and average cost method.

Exemptions & Concessions

The following categories of income are exempt from tax:

- a. Agricultural income derived from sources in Nepal by a person other than the income from an agriculture business derived by a firm, company, or partnership; and
- b. The income of a social, religious, educational, or charitable organization of a public character registered without having a profit motive and similar other organizations approved by the Inland Revenue Department as exempt organization.
- c. Other specific incomes government has considered exempt (for e.g microenterprises or small businesses may be exempt, Income from certain government-approved investments or savings , Income from specific government programs or grants or subsidies designed to support specific sectors e.g. poverty alleviation etc)

All expenses incurred in earning exempt income are not tax deductible.

Deductions

For tax purpose, following expenses along with all expenses incurred while earning income from business or investment in that Nepalese financial year shall be allowed for deductions:

- a. Interest;
- b. Cost of trading stock;
- c. Repair and improvement costs - amount exceeding 7 percent of the value of depreciable assets in any income year are not deductible and are instead added to the depreciation basis of the relevant asset pool at the beginning of next income year. This limitation does not apply to the aviation industry;
- d. Pollution control expenses;
- e. Research & Development expenses;

- f. Depreciation; and
- g. Banking companies and financial institutions are allowed a deduction for impairment of non-performing assets (loan loss provision) subject to 5 percent of the total loan outstanding.

Non- Deductible Expenses

A person shall not deduct the following expenses or amounts while calculating his/her income from any business, employment or investment in a financial year:

- a. Domestic and personal expenses;
- b. Income tax paid to Government of Nepal or any other Foreign Government and fines and penalties paid to Government of Nepal except tax payments to local and provincial governments;
- c. Expenses incurred in deriving exempt income or final withholding payments;
- d. Distributions of profits;
- e. A cash payment in excess of NRs 50,000 by entities whose annual turnover exceeds NRs 2 million unless explicitly permitted;
- f. Expenses of capital nature which includes cost incurred on detailed feasibility report exploration and development cost of natural resources;

Losses

Tax losses can be carried forward for a period of 7 years and in the case of public infrastructure projects to be built, operated and transferred to Government of Nepal, projects relating to construction of powerhouses and generation and transmission of electricity and petroleum exploration and extradition companies, any unrelieved loss of the past 12 years can be deducted. However, tax losses can be carried back for set-off against taxable income of an earlier period in case of long-term contracts under international competitive bidding subject to prior approval from IRD.

Entities which has availed full or partial tax exemption in any of the year on investment or business income are not entitled to carry forward losses incurred in these exempt years.

Capital losses from the disposal of business assets or liabilities of a business are an allowable deduction and can be claimed as a normal business expense. However, a loss on the disposal of fixed assets can only be claimed if after being credited against the outstanding balance of the pool, the value of the pool becomes zero or negative.

As per Section 20 – Loss from Foreign Source shall be allowed to be set off against the income from that particular country.

Tax Depreciation

The rate of depreciation allowed for each pool of depreciable assets is a follow:

Class/Pool	Particulars of Assets	Rates of Depreciation (In %)
A	Buildings, structure & similar works of permanent nature	5

B	Computers, data analysing equipment, furniture, fixtures & office equipment	25
C	Automobiles, buses and mini-buses	20
D	Construction and earth moving equipment and any depreciable asset not included in other pools	15
E	Intangible assets	Divided by useful life of asset (SLM)

Capital Gain Tax

Net gain derived in respect of disposal of shares listed in stock exchange is subject to tax at the rates of 5%(held for more than 365 days) & 7.5%(held upto 365 days), 10% and 25% for resident natural person, resident entity and others respectively, and whereas in case of unlisted shares, tax at the rate of 10%, 15% and 25% is applicable for resident natural persons, resident entity and others, respectively.

Net gain derived from the disposal of land and building is subject to tax at the rate of 5% if owned for 5 years or more and 7.5 % if owned for less than 5 years for natural person. Net gain on disposal of land and building is subject to 1.5% of sales for person other than natural person irrespective of period of holding.

Tax Rates

Person

An individual is a resident-individual in Nepal if his/her normal place of abode is Nepal OR he/she resides for a period of 183 days or more in 365 consecutive days OR he/she is posted by the Government of Nepal to a foreign country at any time during an income year. A person who is not resident of Nepal is a non-resident individual.

The Tax rates for resident individuals (unmarried) are as follows:

Particulars	Taxable Amount	Rate
First slab	500,000	1%*
Second slab (Next 200,000)	200,000	10%
Third slab (Next 300,000)	300,000	20%
Fourth Slab (Next 1,000,000)	1,000,000	30%
Fifth Slab (Next 3,000,000)	3,000,000	36% **
Remaining above 5,000,000		39% ***

The Tax rates Married Individuals are as follows:

Particulars	Taxable Amount	Rate
First Slab (First 600,000)	600,000	1%*
Second Slab (Next 200,000)	200,000	10%
Third Slab (Next 300,000)	300,000	20%
Fourth Slab (Next 900,000)	900,000	30%
Fifth Slab (Next 3,000,000)	3,000,000	36%**
Remaining above 5,000,000		39%***

*This is the Social Security Tax to be deposited in a separate revenue account (11211) provided for this purpose. However, taxpayer registered as sole proprietorship or on pension income or on income from contribution-based pension fund shall not attract social security tax i.e. 1%. And if the taxpayer is depositing amount in the Social Security Fund (SSF) then for those taxpayers, Social Security Tax is not applicable.

**36% is computed as 30% plus an additional 20% on such tax rate applicable to taxable income above NPR 2,000,000 up to 5,000,000.

***39% is computed as 30% plus an additional 30% on such tax rate applicable to taxable income above NPR 5,000,000.

For non-resident individuals

#	Nature of Transaction	Tax Rate
a	Income from normal transactions	25% flat rate on taxable income
b	Income earned providing Shipping, Air Transport or Telecom Services, Postage, Satellite and Optical Fiber Project through equipment's installed in Nepal	5%
c	Income earned providing Shipping, Air Transport or Telecom Services outside the territory of Nepal, the first point of departure being outside Nepal	2%
d	Repatriation of Profit by Foreign Permanent Establishment	5%

Entities

Industry	Rate
Bank & Other financial institutions	30% Flat rate
Entities engaged in petroleum business	30% Flat rate
Entity engaged in business of cigarette, tobacco, cigar, chewing tobacco, alcohol and beer	30% Flat rate
Others-General Insurance Business, Telecommunication, internet service provider, money transfer, capital market business, securities business, merchant banking business, commodity future market, securities and commodities broker business	30% Flat rate
Entities constructing and operating ropeway, cable car or sky bridge	15% (After rebate of 40% on 25% tax rate)

Industry	Rate
Entities constructing and operating roads, bridges, tunnel, railway, and airports	12.5% (After rebate of 50% on 25% tax rate)
Entities operating trolley bus or trams	15% (After rebate of 40% on 25% tax rate)
Entities with export income from source in Nepal	20% (After rebate of 20% on 25% tax rate)
Entities involved in construction or operation of public infrastructure and to be transferred to GoN or involved in construction of hydropower house and its generation and transmission	20% (After rebate of 20% on 25% tax rate)
Repatriation of profit by Foreign Permanent Establishment	5% flat rate

Tax rate for entities other than specified above is 25%, except for those provided with certain conditions.

Payment of Advance Income Tax

The income tax shall be paid in 3 instalments during a financial year (i.e. by around January 14, April 14 and July 15) computed at the applicable rates on the estimated profits of the entity for the entire year.

Advance tax shall be deposited as follows:

Instalment /due date	Advance Tax to be deposited
Poush End i.e., January 14*	40 percent of the total estimated tax liability for the year
Chaitra End i.e., April 14*	70 percent of the total estimated tax liability for the year
Ashad End i.e., July 15*	100 percent of the total estimated tax liability for the year

* AD Calendar Dates may vary.

Double Tax Relief

Nepal provides relief against international double taxation to residents by granting foreign tax credits. This is restricted to an amount calculated by multiplying the Nepal income tax rate to the income subject to foreign tax. Excess credits can be carried forward and adjusted only against the assessable foreign income. In addition, double tax relief can be claimed under the provisions of existing DTAs, which Nepal has negotiated with other tax jurisdictions.

An unrelieved foreign source loss can be set off only against foreign source income on standalone basis per country.

Permanent Establishment

The income tax rate on repatriation of income by the permanent establishment of a non-resident person based on Nepal shall be 5 percent. The income repatriated abroad in any income year shall be equal to the amount of dividend distributed by the foreign PE during the year.

Controlled Foreign Entity

A controlled foreign entity refers to an entity that does not reside in Nepal, in which a resident person holds an interest and controls or may benefit from 50 percent or more of the rights to income, capital or voting power alone or with not more than four other residents.

A controlled foreign entity is treated as distributing its attributable income, calculated as if the entity were a resident entity, as a dividend to its beneficiaries in accordance with the beneficiaries' rights to that income, or, where those rights are not reasonably certain, in such manner as the Inland Revenue Department thinks appropriate tax will be imposed on dividend distributed to the beneficiaries by a controlled foreign entity.

A controlled foreign entity should distribute dividends to its beneficiaries in accordance with the beneficiaries' rights. This dividend is taxable as income of the beneficiary. Other dividends distributed by a controlled foreign entity are exempt from tax.

Transfer Pricing

In case of transaction between associated persons, they must be the same value as if it was between two unrelated parties in the same scenario and for a transfer condition.

Transfer pricing provision of the tax law states that, in case any arrangement has been made between persons who are associated persons, the department may, by notice in writing, distribute, apportion, or allocate amounts to be included or deducted in calculating 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.

Income Splitting

In case, a taxpayer arranges the streams of income such a way that its tax liability reduces due to splitting arrangement with other party, taxation authority re-characterize the transaction. Under this scenario, there may be arrangement for deferral on tax or purely income splitting. Same treatment will apply for both cases.

General Anti Avoidance Rules

Apart from transfer pricing rules and income splitting rules, Nepal tax law has an additional anti avoidance measure having a higher strength than the above rules which is known as General Anti Avoidance Rule (GAAR).

Deregistration

If a person wishes to close the business in Nepal, he/she may apply for deregistration from taxation through prescribed format. Within fifteen days from date of application, taxpayer requires to submit the documents as provided in a notice by the taxation authority. In case there is pending tax dispute, taxpayer must pay all the dues of tax arrears including the tax on the disputes pending on the taxation tribunal. Tax officer examine the books for any discrepancy or filed tax returns. At the clearance for all respect, tax officer decides deregistration. Legally prescribed time frame for deregistration is three months from date of application. Practically, it depends upon the settlement of disputes and arrears.

Value Added Tax (VAT)

VAT is levied on value added of goods and services at each stages of production & distribution chain. These stages can be import, manufacturing, wholesale & retail. VAT is imposed on goods & services imported into Nepal, supplied within Nepal and finally, exported from Nepal. VAT in Nepal is managed and administered by Inland Revenue department. Any person, firm or company having an annual turnover of NPR 5 million or more (in case of goods) and 3 million or more (in case of mix goods services) or only services has to register for VAT except the business that fall under Schedule 1 of VAT Act. VAT is levied at a flat rate of 13% and taxpayers (intermediaries) can claim input credit on VAT paid during procurement. VAT is charged at 0% (Zero Percent) on exports, which means that they can claim an input tax credit. However, no input credit claim can be made for non-VAT able goods and services.

Excise duty

Excise duty is governed and regulated by the Excise Act, 2002 and the Excise Regulation, 2003. Every entity needs to get registered to Inland Revenue Department for excise for manufacturing, importing, selling & storing excisable goods & services. Persons, firms or institutions that need to register may submit a prescribed application form to the excise officer at the concerned Inland Revenue Office. The rate of excise duty generally ranges from 0–60%.

Exports are exempt from excise duty. Most raw materials fall within the 0–5% duty band, whereas finished goods and consumer items are levied on ad valorem (value of the goods). Duty at the rate of 35–60% is levied mainly on the import of motorcars. If the decision made by excise officer is not acceptable to the taxpayer, the taxpayer has to submit an appeal within 35 days from the date of receipt of the decision made by the excise officer. The taxpayer can approach the Revenue Tribunal if he or she is not satisfied with the Department's decision.

Customs duty

Customs duty is levied on the import of goods to Nepal as per the Customs Act, 2007. It ranges from 0–80% on the transaction value (cost, insurance and freight [CIF] to the Nepal border) depending on the product. Most raw materials fall within the 0–10% duty band, whereas finished goods and consumer items fall within the 5–30% duty band. Duty at the rate of 60–300% is levied on only a few items (i.e. motor vehicles, arms and ammunitions, and pipe tobacco). In the case of exports, there is generally no duty except for certain products, like those originating from forests, certain agricultural products that are in short supply in Nepal or industrial raw materials and minerals. Provision is made for an administrative review of the customs duty by the Revenue Tribunal if the decision made by custom officer is not

acceptable to the taxpayer. In such case, the taxpayer has to submit an appeal within 35 days from the date of determination of the custom duty.



ACCOUNTING AND REPORTING

Nepal follows internationally accepted accounting norms and systems. The financial statements are prepared and presented in accordance with Nepal Financial Reporting Standards & Nepal Accounting Standards. The Institute of Chartered Accountants of Nepal has issued several Nepal Financial Reporting Standards (NFRS) as recommended by Accounting Standard Board of Nepal. Nepal Financial Reporting Standards is the set of accounting standards issued by Accounting Standards Board of Nepal based on International Financial Reporting Standards (IFRS).

Company accounts need to be maintained on an accrual basis. The fiscal year for tax assessment and tax payment begins from the month of Shrawan and ends in the month of Asadh in the Nepali calendar (mid-July in the Gregorian calendar). The taxpayer must prepare the final book of accounts and tax returns, have this book audited by auditors of the concerned governing body, file the returns and make the final payments within three months of the expiry of the fiscal year.

Nepal Financial Reporting Standards (NFRS)

Nepal Financial Reporting Standards ('NFRS') are designed as a common global language for business affairs so that company accounts are understandable and comparable within Nepal. NFRS is issued in line with the IFRS. NFRS is presently mandatory for larger enterprises only.

The NFRSs are designed to apply to general-purpose financial statements and other financial reporting of all profit-oriented entities and are based on IFRS with modifications to suit the accounting practices of Nepal. The NFRSs prescribes the criteria for identification, measurement, presentation, and disclosure of a financial statement. It also set out the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

The application of NFRSs encompasses not only the members of ICAN but also all external users that prepare financial statements. The development of NFRSs has contributed in regulating the presentation and reporting of financial statements and in bringing out financial transparency and financial discipline in Nepal.

Accounts of the Company

As per the provisions of company act, every company shall duly maintain its accounts in the Nepali or the English language. The accounts shall be maintained according to the double entry system of accounting and in consonance with the accounting standards enforced by the competent body, in such a manner as to clearly reflect the actual affairs of the Company. The cash balance of a company, other than the amount specified by the board of directors, shall be deposited in a bank and transaction shall be done through the bank.

The following annual financial statements shall be prepared by the board of directors of a public company every year at least thirty days prior to the holding of its annual general meeting, and in the case of a private company, within six months of the expiry of its financial year:

- (a) Balance sheet as at the last date of the financial year.
- (b) Profit and loss account of the financial year.
- (c) Description of cash flow of the financial year.

This annual financial statement to be prepared pursuant to Subsection (1) shall give true and fair view of the state of affairs of the company as at the last day of the financial year concerned and also state the account of profit and loss and description of cash flow made in that financial year. Such financial statements shall be prepared in the format prescribed by the prevailing law.

[Nepal Public Sector Accounting Standards \(NPSAS\)](#)

For public sector entities, Government of Nepal has adopted Nepal Public Sector Accounting Standards developed by Accounting Standard Board.

UHY IN NEPAL



UHY Suvod Associates Chartered Accountants

Nepal

CONTACT DETAILS

UHY Suvod Associates Chartered
Accountants
357/55 Ganeshmarg
Shankmul
New Baneshwor
Kathmandu-31
Tel: +977 1 524 2214

CONTACTS

Liaison contact:	Akash Suman
Position:	Consultant
Email:	akash@suvodassociates.com.np

SOCIAL MEDIA CONNECTIONS

Year established:	1993
PCAOB registered?	No
Number of partners:	2
Total staff:	33

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

Itahari Sub- Metro City
Biratnagar Bus Park
Behind Nabil Bank, Itahari-6
Phone- +977-25-586311

CONTACTS

CA.(Dr.) Suvod Kumar Karn (Managing Partner)
Email: suvod@suvodassociates.com.np
suvodkarn@gmail.com

Akash Suman (Dy Director)
Email: akash@suvodassociates.com.np

Rajib Kumar Karn (Chief Operating Officer)
Email: rajib@suvodassociates.com.np

BRIEF DESCRIPTION OF FIRM

Suvod Associates is a leading professional services firm established in the year 1993 A.D to operate from Kathmandu with a branch office located at Itahari. Our knowledgeable and skilled team of Chartered Accountants, Management Consultants, Software Experts, Engineers, Lawyers and IT Experts operate from the well-equipped office with all modern amenities to facilitate the efficient working environment.

Suvod Associates has established an extensive network of strategic affiliations, both domestically and internationally, to specifically provide clients with professional expertise and services mandatory for success. At Suvod Associates, we have met the continuing growth, diversification and challenge our clients have faced by expanding our facilities, building strategic alliances, adding personnel and developing the technological capabilities needed to achieve success. We take great pride in our experience and our ability to provide practical business solutions. We believe in working very closely with our clients and are committed to devoting all of the necessary

UHY Suvod Associates Chartered Accountants

Nepal

resources to help our clients to operate more efficiently, grow their business, and achieve new levels of success in today's increasingly competitive economy business, and achieve new levels of success in today's increasingly competitive economy.

SPECIALIST SERVICE AREAS

IFRS/NFRS Advisory
Due Diligence
Investment Advisory
Forensic Auditing
M&A Advisory
Business Appraisal
Transfer Pricing
Tax Litigation
Financial Planning

PRINCIPAL OPERATING SECTORS

Aviation
Power & Energy
Insurance
Telecommunications
Hotels & Hospitality
Health & Education
Trading & Manufacturing
Real Estate & Construction
Financial Services & IT
Brewery & Distillery

LANGUAGES

Nepali, English, Maithili, Newari, Bhojpuri & Hindi

CURRENT PRINCIPAL CLIENTS

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

BRIEF HISTORY OF FIRM

Suvod Associates was established in the year 1993 in Kathmandu. Commencing its operations as a relatively smaller accounting & audit firm, it has made its way to being one of the top professional services firm in the country. In this journey to the top, we have the privilege of serving many of the largest corporations in Nepal. In our 25 years of experience we have come across many challenges and tackled them all to gain the reputation we have today. We hope to help our clients achieve their goals and help them tackle the challenges they may face.



Let us help you achieve further business success

UHY Suvod Associates is an independent member of Urbach Hacker Young International Limited ("UHY International"), a UK company, and forms part of the UHY International network of legally independent accounting and consulting firms.

Any engagement you have is with UHY Suvod Associates and any services are provided by UHY Suvod Associates and not by UHY International or any other member firm of UHY International. "UHY" is the brand name under which members of UHY International provide their services: all rights to the UHY name and logo belong to UHY International, and the use of the UHY name and logo does not constitute any endorsement, representation or implied or express warranty by UHY International.

UHY International has no liability whatsoever for services provided by UHY Suvod Associates, nor any other members and UHY Suvod Associates has no liability whatsoever for services provided by other member firms of UHY International.

© 2025 UHY International & UHY Suvod Associates