

Chandrawat
& Partners

DOING BUSINESS IN NEPAL

A COMPREHENSIVE GUIDE

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INTRODUCTION

Nepal is one of the fastest-growing nations in South Asia. It offers a unique combination of cultural diversity, scenic beauty, and vast economic potential for a variety of sectors, including as hydroelectricity, tourism, and natural resources.

Nepal welcomes international investment in the form of 100% foreign-owned companies or joint ventures with Nepalese investors. The Government of Nepal (“GON”) is very pro-foreign investment with the goal of developing social and economic structures that can offer consistent access to high-quality commodities. Furthermore, the nation strives for political stability, peacekeeping, trade facilitation, and the development of economic capability through sustainable development.





ECONOMIC OVERVIEW

An analysis of the economy shows that the nation is recovering, with a young population, expanding middle class, and expanding market. Although the service sector accounts for the majority of Nepal's gross domestic product ("GDP"), the country's economy is still heavily dependent on agriculture. Nepal's business environment is appealing due to its recovering economic prospects and advantageous placement between two of the world's fastest-growing countries, namely China and India. Palm and soybean oil, woollen carpets, polyester yarn, juices, tea, spices (cardamom), textiles, jute products, ready-made clothes, and other clothing items are among the nation's top exports. As a nation with a labour surplus, Nepal provides skilled, semiskilled, unskilled, and highly skilled labour.

Nepal has direct access to the thriving markets of both China and India, the two most populous countries in the world. Due to its much-reduced import tariffs, Nepal is a desirable destination for international investment. Nepal's natural and cultural resources present investors with a substantial potential.

FOREIGN DIRECT INVESTMENT POLICY

Nepal views foreign direct investment (“FDI”) as an important driver of its economic growth. To foster an atmosphere that is favorable to foreign investors, the government has put in place a number of regulations and reforms.

In an effort to draw foreign direct investments (FDIs) into the nation, Nepal has been adopting a liberal foreign investment policy and working to establish an investor-friendly atmosphere. Nepal welcomes international investment in the form of wholly-owned foreign companies as well as joint ventures with Nepalese investors. The nation has among of the lowest tax slabs in the world and a respectable standing in terms of business accessibility. Hydropower, industrial manufacturing, services, tourism, building, agriculture, minerals, and energy are all profitable investment sectors. To encourage investment in Nepal's promising industries, the government established a high-level Investment Board, which is led by the country's prime minister. Providing investors with one-window facilities is this board's primary goal. The export of labor is another major source of the nation's income, and remittances remain a vital lifeline for the Nepali economy. The economy of Nepal is gradually moving away from agriculture as a result of large-scale rural-to-urban and international migration. Nepal imports a variety of goods each year, including cement, construction equipment, gold, petroleum products, and items for industrial use, mostly from China, India, and Indonesia. With the exception of cottage industries, services, and the armaments and munitions industries, foreign investors are permitted to acquire 100% of a corporation in most areas. Nepal has put in place a number of bilateral agreements to prevent double taxation and safeguard investments. The government increased the NPR 5 million minimum foreign investment requirement to NPR 50 million.



KEY SECTORS

The majority of businesses in Nepal are found in industries including banking & finance, manufacturing, tourism, agriculture, and IT services. These sectors have enormous development potential since they have access to a wealth of people and resources. In addition, the Nepali government has launched a number of programmes to encourage small enterprises and entrepreneurship. It is evident that Nepal offers a plethora of economic prospects for the foreseeable future 2024.

ENERGY

Abundant in water resources, coming from a variety of sources such as groundwater, snowfall from the Himalayas, rainfall, and glaciers. Hydropower has a theoretical potential of about 80,000 MW, of which 43,000 MW are thought to be commercially viable.

TOURISM

Home to the Himalayas, the largest mountain range in the world, and eight of the ten highest peaks in the world, this region is well-liked by hikers, mountaineers, and adventure seekers. Offers stunning lakes, narrow rivers, and gorges, rare animals, historical landmarks, exquisite fine arts, important religious places, and exotic cultures that draw a diverse range of tourists for different purposes.

AGRICULTURE

The economy is mostly reliant on agriculture, which employs over two thirds of the labour force and contributed roughly 24% of the gross domestic product (“GDP”). Arable land makes for around 28% of the total land area. The modernization, diversification, commercialization, and marketing of the agriculture industry are the main concerns of the government. Plans are in place for the government to provide agricultural inputs including irrigation, energy, transportation, and agro-credit.

ADVANTAGES OF DOING BUSINESS

The Nepalese government and private sector organisations have been tackling challenges including financial sector reform, bolstering the private sector's capability, and expediting the private sector's development since the country was designated as a Federal Democratic Republic.

COMPARATIVE ADVANTAGE

Nepal has direct access to the thriving markets of both China and India, the two most populous countries in the world. Due to its much reduced import tariffs, Nepal is a desirable destination for international investment. Nepal's natural and cultural resources present investors with substantial potential.

INVESTMENT CLIMATE IN NEPAL

Nepal welcomes international investment in the form of 100% foreign-owned companies or joint ventures with Nepalese investors. The Government of Nepal ("GON") is very pro-foreign with the goal of developing social and economic structures that can offer consistent access to high-quality commodities. Furthermore, the nation strives for political stability, peacekeeping, trade facilitation, and the development of economic capability through sustainable economic development.

MARKET SIZE AND ACCESSIBILITY

Despite its tiny size and limited market, the nation has substantial access to the main markets in the area thanks to its unique ties with its neighbours. The nation can easily reach the global market. Since Nepal is a part of the World Trade Organization, it benefits from international trade agreements governed by rules.

INDUSTRY

By enhancing the industrial environment, raising productivity and production, expanding employment opportunities, encouraging export-based industries to replace imports, and reducing trade deficits, Nepal's New Industrial Policy draws in both foreign and domestic investors and strengthens the country's balance of payments.

RETURN ON INVESTMENT ("ROI")

Nepal has the lowest tax burden in the area when compared to other South Asian nations. A few explanations for Nepal's relatively strong return on investment.



TYPES OF COMPANIES

Statutory company:

The parliament's special act establishes statutory businesses, and the Act specifies the firms' goals, authorities, and functions. Among the instances are the Nepal Industrial Development Corporation, the Agriculture Development Bank, and the Nepal Rastra Bank.

Company limited by shares:

This kind of business is registered in accordance with the company act's regulations, having a fixed share capital split up into a predetermined number of shares. The face value of the shares that the shareholders have paid for limits their responsibility. These kinds of businesses are rather prevalent these days.

Company limited by guarantee:

A company limited by guarantee is one in which each shareholder agrees to pay a certain amount as a guarantee at the time of the company's winding up. The company's Memorandum of Association contains information on this assurance. Each member may receive a different guarantee amount.

Private company:

According to its Memorandum of Association, this kind of business is restricted to no more than 50 members and is not allowed to sell its shares to the general public. In its name, a private corporation must state that it is private limited ("Pvt. Ltd.").

Public company:

According to its Memorandum of Association, this kind of business has a minimum of seven members, but there is no cap on the total number of shareholders. The public can purchase shares from publicly traded corporations. A public company is governed by authorized capital with which they are registered. The shares of public company are transferable. Public companies are required to use the word limited ("Ltd.") In its name.

Government companies:

The government owns at least 51% of the paid-up share capital in this kind of business.

MINIMUM ELIGIBILITY CRITERIA FOR COMPANY REGISTRATION

PRIVATE COMPANY

- Number: Maximum of fifty shareholders and number of directors as per the AOA. These can be individuals or corporate entities.
- Nationality: No restrictions on nationality.
- Capital: The minimum paid-up capital requirement for a private limited company is NPR 1,00,000. The invested capital must be mentioned in the Memorandum of Association (“MOA”).
- Shareholders: The number of shareholders cannot exceed 101.
- Foreign Investment: No minimum foreign investment requirement.
- Company Name: Must be unique and approved by the Office of the Company Registrar.
- Registered Office Address: Proof of a registered office address within Nepal is required.
- Documents: Application form, MOA, AOA, citizenship certificates of promoters for a Nepalese citizen, certificate of registration of incorporation for a corporate body, permission under prevailing law to carry on business in Nepal in case of a foreign person or company, shareholder agreement.

PUBLIC COMPANY

- Number: Minimum of seven promoters. These can be individuals or corporate entities.
- Nationality: No restrictions on nationality.
- Capital: The paid up capital of a public company shall be a minimum of ten million rupees, except as otherwise provided in the prevailing law or in a notification by the Government of Nepal in the Nepal Gazette that the paid up capital of any particular company shall be in excess of the said required minimum.
- Shareholders: No maximum number of shareholders.
- Foreign Investment: Minimum foreign investment threshold of Nrs. 50 million (approx. USD 43,100). This is not mandatory, but if foreign investors are involved, this minimum threshold must be met.
- Company Name: Must be unique and approved by the Office of the Company Registrar.
- Registered Office Address: Proof of a registered office address within Nepal is required.
- Documents: Application form, Memorandum of Association (“MOA”), Articles of Association (“AOA”), citizenship certificates of promoters, shareholder agreement.

HOW TO SET UP A BUSINESS

The common procedure to incorporate a business in Nepal involves several key steps and document requirements.

RESERVATION OF COMPANY NAME:

The first step is to reserve the company name at the Office of Company Registrar (“OCR”). The Registrar will only approve names that are unique and not similar to those of existing companies.

SUBMISSION OF DOCUMENTS:

The applicant needs to submit the physical copies of the required documents at the OCR. The documents include the Articles of Association, Memorandum of Association, and other relevant documents.

EXAMINATION AND ISSUANCE:

The submitted documents are examined by the OCR, and upon approval, the company registration certificate is issued.

MINIMUM PAID-UP CAPITAL:

The minimum paid-up capital requirement for a private limited company is NPR 1,00,000.

DOCUMENTARY REQUIREMENTS:

To register a company in Nepal, the applicant must submit foundational documents, including the memorandum and articles of association, any pre-incorporation agreements among promoters, and relevant approvals or licenses required by law. Additionally, documentation confirming the identity and citizenship of Nepalese or foreign promoters and certified copies of incorporation for corporate promoters must also be provided.

TIMEFRAME:

The total time required for online company registration in Nepal for a new company is 7 to 10 days.

TAXATION

RESIDENT PERSONAL INCOME TAX

- Income up to NPR 400,000 is liable to tax at a rate of 1% of annual income;
- Additional NPR 100,000 is liable to tax at a rate of 10% of annual income;
- Additional NPR 200,000 is liable to tax at a rate of 20% of annual income;
- Next NPR 1,300,000 is liable to tax at a rate of 30% of annual income; and
- Balance above NPR 2,000,000 is liable to tax at a rate of 36% of annual income.

WHEN ASSESSED AS COUPLE

- The first ₹4,50,000 is taxed at 1%.
- The next ₹1,00,000 is taxed at 10%.
- The following ₹2,00,000 is taxed at 20%.
- The subsequent ₹12,50,000 is taxed at 30%.
- Any income exceeding ₹20,00,000 is taxed at 36%.

CORPORATE INCOME TAXES

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

NON RESIDENTS

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

ACCOUNTING STANDARDS

The task of developing accounting guidelines for the preparation and display of financial statements in Nepal fell to the newly established ASB Nepal. When doing business in Nepal, understanding and complying with the applicable accounting standards is crucial for accurate financial reporting, tax compliance, and investor confidence.

MAIN ACCOUNTING STANDARDS

- Nepal Financial Reporting Standards (“NFRS”): These are Nepal's adopted version of International Financial Reporting Standards (“IFRS”). They provide a framework for recognizing, measuring, presenting, and disclosing financial information.
- Nepal Accounting Standards (“NAS”): A set of older accounting standards still in use for some businesses, but gradually being phased out in favour of NFRS.

REGULATORY BODIES

- Accounting Standards Board (“ASB”) Nepal: Responsible for developing and issuing NFRS and NAS.
- Institute of Chartered Accountants of Nepal (“ICAN”): Regulates the accounting profession in Nepal and oversees compliance with accounting standards.



Employment and labor laws

Working Hours

Employees should not work for more than 8 hours daily and 48 hours weekly. Overtime work is allowed, with a limit of 4 hours a day and 24 hours a week.

Remuneration

Employees have the right to a fair and reasonable remuneration, and employers must pay at least the national minimum wage.

Types of Employment

The Labor Act 2017 identifies five types of employment: regular employment, work-based employment, time-bound employment, casual employment, and part-time employment

Probation

The law outlines provisions for probationary employment, including the duration and conditions of probationary service.

Leave and Holidays

Employees are entitled to at least 30 continuous breaks after 5 hours of work. Minor employees must receive breaks every 3 hours

Terminal Benefits

Employees are entitled to terminal benefits, which include gratuity, provident fund, and pension.

Health and Safety

Employers must ensure a safe and healthy work environment, comply with occupational safety and health regulations, and provide necessary safety equipment and training to employees.

Social Security

Employers are required to register their employees with the appropriate social security institutions and contribute to social security funds.

How we can help ?

Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.

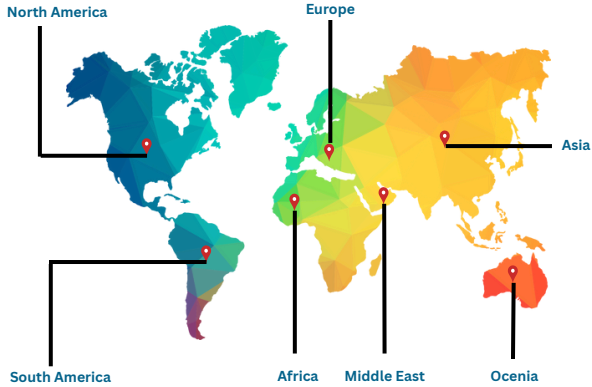
Our experts can help set clear objectives, outline actionable steps and identify opportunities for growth and expansion.

Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team can investigate and identify any licenses, permissions or registrations required for the client's specific area or industry.

Our professionals can assist with the application process and ensures that the organization complies with all legal criterias.

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