

**Chandrawat  
& Partners**



# **DOING BUSINESS IN BHUTAN**

A COMPREHENSIVE GUIDE

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# Introduction



Bhutan is a small country in South Asia that is bordered by China to the north and India to the south. Bhutan is a country steeped in tradition and has a distinct economic system where riches are distributed through inheritance and archaic customs. However, this dynamic nation has started a path to improve its business environment. Bhutan has earned the 81st place out of 190 countries in the World Bank's Doing Business recent report for ease of doing business.

Several crucial factors come into play for those desiring to conduct business operations within Bhutan's alluring borders. A variety of processes, including company registration, trade license acquisition, and tax registration, must be completed in order to start a firm. Bhutan has simplified the tax payment procedure by developing a cutting-edge online platform that makes it easier to file both business and individual income tax reports.

While Bhutan faces multiple challenges promoting entrepreneurship, concerted attempts are being made to overcome these difficulties. Efforts to foster entrepreneurship and improve the general business environment have taken off in collaboration with partners like the Asian Development Bank. Bhutan is forging ahead, and its peaceful fusion of tradition and aspiration draws businesspeople and enthusiasts to participate in the country's developing economic adventure.

# Economic overview

Bhutan is now categorized as a lower-middle-income nation as of 2023, with a projected GDP growth rate of 4.4% for the year and 4.2% for 2024. Based on income levels of \$3.65 per day and \$6.85 per day, respectively, the incidence of poverty is predicted to somewhat decline, with estimates for 2023 being 0.4% and 7.9%, respectively. Over 60% of Bhutan's population relies primarily on agriculture and forestry as a source of income, making these sectors the foundation of the country's economy. This growth trajectory is largely attributable to the recent, rapid economic growth that has been driven by the hydropower industry, which is dominated by the public sector, and by strong results in the services sector, particularly in tourism. Bhutan's economic fortunes are also intimately linked to those of India, as seen by the two countries' strong commercial ties, monetary union, and heavy reliance on aid from that country. Bhutan needs a more vibrant and stronger private sector to pursue its development goals. For the nation to successfully realize its larger developmental ambitions, this transition is necessary.



Bhutan has shown favorable market access in the middle of these changes, particularly as a result of its open admission into the Indian market via a free trade deal. However, within its smaller economy, the world of market-based competition is still in its infancy. In particular, Bhutan struggles with a limited tax base, which intensifies fiscal constraints as the country prepares to leave its Least Developed Country designation. Therefore, expanding this foundation is crucial to sustaining growth and development.

Bhutan's economic story combines resilience and development with the complexities of obstacles and turbulence. The pursuit of diversification, the expansion of the revenue base, and the overcoming of obstacles stand out as crucial factors in determining Bhutan's economic direction and supporting long-term development on this arduous Himalayan terrain.



# Foreign Direct Investment

Bhutan continues to take a cautious yet practical approach to foreign direct investment (FDI) as of 2024. The FDI policy stipulates a minimum project cost of Nu. 5 million and a maximum equity ownership of 49% for foreign investors in ventures. This strategy represents Bhutan's efforts to strike a balance between economic growth and its distinctive Gross National Happiness ("GNH") development philosophy, which places a higher priority on sustainability and well-being than merely economic measurements.

Bhutan's small size and predominately agricultural economy support sustained growth and self-reliance, which lessens the need for a significant inflow of foreign direct investment (FDI). Bhutan is able to prioritize and safeguard its native industries and customs thanks to this trait, which supports a robust and balanced economic environment. The difficulties have also forced the nation to take a careful and calculated approach to FDI. The government takes a cautious approach because it thinks that, in accordance with the GNH framework, any foreign investment should enhance the general wellbeing and pleasure of its population.

India is the main source of foreign direct investment ("FDI") in Bhutan because of their shared history, geography, and culture. Thailand and Singapore additionally contribute to FDI inflows. Bhutan's decision to create a "negative list" of industries that are off-limits to foreign investment shows that it has given careful thought to those that do not correspond with its development aspirations. However, FDI is still permitted in the majority of other industries, demonstrating the government's readiness to accept investments that promote Bhutan's economic development and societal well-being.

Bhutan seeks to improve the investment climate in order to promote economic growth and development. This desire recognizes the potential advantages of FDI in industries that support the nation's development goals. Bhutan aims to increase economic diversification and lessen its reliance on traditional agricultural operations by building an environment that supports responsible and sustainable foreign investments.



# Key sectors



## Primary Sector: Agriculture and Forestry

Bhutan's economy is heavily reliant on agriculture, which provides the majority of its citizens with their primary means of subsistence. It includes animal husbandry and subsistence farming, which both considerably increase the GDP of the nation. In Bhutan, agriculture is centered on subsistence farming and animal husbandry, which are integral to its citizens' daily existence. A sizeable majority of the population derives their primary source of income from this sector, which plays a dominant role in society. It provides a significant portion of the GDP while also providing nourishment for almost 60% of Bhutan's population.





## Secondary Sector: Industry

The secondary sector demonstrates the rise of numerous important sectors, each of which makes a distinctive contribution to Bhutan's economic system.

**Hydropower:** Bhutan has used hydropower, which is abundant, as a pillar of its economic development. Bhutan has created a steady source of wealth and prosperity by exporting the majority of the power produced to India. It is noteworthy that hydropower has become a significant part of Bhutan's economy. The nation makes use of its tremendous hydropower potential by exporting a sizable amount of the electricity produced to India, a neighbour. This has increased economic growth and created a consistent source of income



**Tourism:** Bhutan's "high-value, low-impact" strategy is helping the country's tourism industry grow. The nation's nature and culture are protected by the government's control over tourism and a minimum spending requirement per guest. Bhutan's beautiful natural surroundings and distinctive cultural legacy have made it possible for tourism to flourish. The government regulates tourism, notably using a "high-value, low-impact" strategy to ensure sustainable growth and cultural preservation. This strategy is supported by the government's regulation of visitor numbers and minimum spending criteria.

**Manufacturing:** Cottage industries, which produce goods on a smaller scale, make up the majority of Bhutan's manufacturing industry. These businesses cover a range of fields and support regional output and employment. The vast majority of Bhutan's industrial sector is made up of small-scale cottage industries. This industry diversifies the economy and creates job possibilities locally.



**Mining:** Despite being a relatively small sector in Bhutan, mining is expanding. Dolomite, limestone, gypsum, and other valuable minerals are extracted, which helps the country's economy diversify. Although mining is still a young industry, the extraction of minerals like dolomite, limestone, gypsum, and coal helps Bhutan diversify its economy by utilizing its mineral resources.

**Construction:** Buildings, bridges, and other forms of infrastructure development have led to an expansion of the construction sector. This development reflects Bhutan's growing modernization and improved connectivity. Bhutan's building industry has grown significantly in recent years. The construction of vital structures like highways, bridges, and buildings symbolizes the country's desire for modernity and improved connectivity.





# Advantages of doing business in Bhutan

**Biodiversity Richness:** Bhutan's pristine environment, which is teeming with different flora and fauna, provides a favorable environment for companies engaged in ecotourism, agriculture, and renewable energy. The richness of wild landscapes offers a chance to balance environmental protection with economic development.

**Opportunities for Expansion:** Bhutan's steady economic growth and developmental advancement give doors for companies looking to expand. Emerging markets in the country provide businesses with an exciting blank slate on which to develop and establish their footprint.

**Human resource:** Bhutan offers firms a competitive edge with its supply of highly qualified people. In addition to increasing productivity, competent labor supports the expansion and development of numerous sectors.

**Environmental Stability:** Companies that value ethical and environmentally friendly activities are drawn to Bhutan because of its dedication to environmental preservation and sustainable practices. The nation's commitment to upholding a balanced ecological imprint fosters an atmosphere that is appealing to environmentally concerned businesses.





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**Political Stability:** The accommodating political environment in Bhutan supports commercial investment. Potential investors are given a sense of security and stability by the absence of significant political upheavals.

**Simple Tax Regime:** Bhutan's uncomplicated tax structure makes it easier for businesses to understand the complexity of taxation. This transparency makes it simpler to comply with regulations and promotes more effective financial operations.

**Low Cost of Living:** Bhutan has advantages for businesses in terms of operational costs and staff compensation due to its relatively low cost of living. This has a big impact on how financially healthy a company is.

**Excellent Infrastructure:** Bhutan has made considerable efforts to build its infrastructure, which includes utilities, telecommunications, and transportation. This provides strong support for corporate activities. Modern infrastructure improves efficiency and connectivity, which makes doing business easier.





# Types of Businesses

**Sole Proprietorship:** The most basic kind of business ownership is a sole proprietorship. Usually, in a tiny, one-person business, the owner is fully in charge of and accountable for all aspects of daily operations. The owner is personally liable for all business debts and responsibilities because there is no legal separation between the owner and the business.

**Partnership:** General and restricted partnerships are the two types of partnerships allowed in Bhutan.

**General Partnership:** In a general partnership, two or more people or organizations share responsibility for the company's management, financial success, and failure. The debts of the partnership are personally owed by each partner.

**Limited Partnership:** Both general partners and limited partners may be a part of a limited partnership. While limited partners' personal assets are only secured to the degree of their stake in the partnership, general partners have limitless liability.

**Cooperative Society:** People with similar economic interests come together to form cooperative organizations. Members combine their resources, co-own the company, and run it together. According to their contributions, members often split the profits.

**Joint Venture:** In a joint venture, two or more parties are involved, frequently with at least one foreign participant. They work together to carry out a certain project or business endeavor. Joint ventures are governed by specific agreements and can have many different legal forms.

**Branch Office or Subsidiary:** Subject to governmental clearances and compliance with the Foreign Direct Investment (FDI) legislation, foreign businesses may open a branch office or subsidiary in Bhutan.

**Non-Governmental Organization (NGO) or Non-Profit Organization (NPO):** Non-Governmental Organizations (NGOs) and Non-Profit Organizations (NPOs) are groups that work for social, humanitarian, or charitable causes. They are subject to particular laws that control their actions.

# Minimum eligibility criteria

Investors who want to start a business in the Kingdom of Bhutan must meet certain qualifying requirements, according to government rules. To ensure that they are of legal age to invest in and serve as a director of the firm, both parties must be at least 18 years old. Additionally, in order to comply with the established legal framework governing enterprises in the country, the investor must be prepared to register the proposed firm as an entity under the firm Act of Bhutan.



The capital investment must also be made in US Dollars (USD) when a business is incorporated in Bhutan. This requirement reflects the country's commitment to upholding international financial norms and transparency. Last but not least, in order to conduct business inside Bhutan's borders while adhering to the relevant immigration and employment restrictions, foreign investors must get a work permit and visa. These standards work together to foster a regulated and favorable business climate in Bhutan, encouraging ethical corporate practices and international investment.



# How to set up a business in Bhutan?

Bhutan has a systematic and regulated process for opening a business that includes several key elements. The process starts with the creation of a thorough business plan that carefully outlines the business concept, market analysis, financial predictions, and carefully considered legal duties. The decision of whether to operate the business as a sole proprietorship, partnership, private limited company, or public limited company then becomes crucial.

The next step is to select a distinctive and legally sound company name, making sure it doesn't conflict with any already registered trademarks or trade names. It is crucial to establish the company's goals and operational principles in the Memorandum of Association and the Articles of Association in order to comply with Bhutan's corporate regulations.



To fulfill your tax duties, you must obtain a Tax Identification Number (TIN) from the Bhutan Revenue Authority. It's important to go by Bhutanese laws, such as investing cash in US dollars and obtaining necessary permissions and permits, which may change depending on the particular sort of business. To conduct business inside Bhutan's borders, international investors must get a work permit and visa from the Department of Immigration.

The submission of required paperwork and registration costs is mandated by the Registrar of Companies, who is essential to the registration procedure. The price varies according to the type of business and the amount of capital used. A business license from the Ministry of Economic Affairs or other pertinent sector regulators is also required. It's crucial to register a business bank account in order to make financial transactions easier.



# Taxation system

The Department of Revenue and Customs, which reports to the executive Lhengye Zhungtshog (cabinet), is in charge of overseeing the country of Bhutan's taxation system. This system is primarily governed by the Income Tax Act of 2001, which is a landmark since it offers a thorough framework for income taxation in Bhutan that applies to both people and businesses. This Act also contains laws relating to sales tax, bankruptcy, and administrative dispute settlement procedures.

Bhutan's income tax system is notable for its progressive character. As of 2011, the first Nu.100,000 of an individual's income is exempt from tax. Thereafter, the tax rate is 10% up to Nu.250,000 and 15% up to Nu.500,000. The government's dedication to fair and equitable taxation is reflected in this progressive framework, which is in line with the larger goals of socioeconomic growth and Gross National Happiness (GNH).

The decentralized nature of Bhutan's tax system is seen in the different acts that address taxation and enforcement in accordance with their respective subjects and levels of government.

Bhutan will have a 50% sales tax as of May 2023. Bhutan's economy is heavily reliant on taxes, as evidenced by the fact that in previous fiscal years, the nation received Nu. 25,843.052 million in tax revenue, or 66.19% of its total national income. Roads, bridges, schools, hospitals, and other critical infrastructure projects are all carefully funded with tax dollars. Additionally, they contribute significantly to Bhutan's general socioeconomic

As of 2024, Bhutan's taxation system includes progressive personal income tax (0%–30%) and corporate tax (0%–30%), with incentives for key sectors like hydropower, agriculture, and tourism. VAT is 10%, and there are excise duties on certain goods. The system also includes property, customs, and environmental taxes, with exemptions for small businesses and green industries. Tax administration is increasingly digitized, and the Department of Revenue and Customs oversees compliance, offering incentives to encourage foreign investment in priority sectors.







# Accounting Standards

For the purposes of financial reporting, Bhutan adopted the Bhutanese Financial Accounting Standards (BFAS). The Bhutanese Financial Accounting Standards were created to guarantee transparency, consistency, and comparability in financial reporting in Bhutan. They are based on International Financial Reporting Standards (IFRS). The Bhutanese Institute of Certified Public Accountants (BICPA) is in charge of issuing and enforcing these standards.

The main accounting standards applied in Bhutan are the Bhutanese Financial Accounting Standards. They are designed to provide a framework for creating and presenting financial statements and are established in accordance with global best practices.

### **Conversion to IFRS:**

To improve the standard and comparability of financial reporting, Bhutan has been attempting to converge its accounting standards with the international standards for financial reporting (IFRS). There can still be some variances even though BFAS are based on IFRS.

### **Regulatory Body:**

The Bhutanese Institute of Certified Public Accountants (BICPA) is the regulatory body in charge of creating, enforcing, and maintaining the Bhutanese Financial Accounting Standards. It is crucial in encouraging Bhutan to adopt international accounting standards.

# Employment and labor laws

**Employment Agreements:** In Bhutan, written agreements between employers and employees are the norm for employment contracts. The terms and circumstances of employment, such as compensation, working hours, benefits, and other pertinent elements, should be outlined in these contracts.

**Minimum wages:** For each day of work, the minimum wage in Bhutan is BTN 125. Each worker is required to get this payment, which comes to \$2. Additionally, as soon as a business has more than five workers, it needs to set up clear work regulations to maintain uniformity and guarantee that everyone is paid on time.

**Working hours:** In Bhutan, a conventional workweek consists of 40 hours, divided into eight-hour days. Additional pay was given for overtime work.

**Leave entitlement:** Employees in Bhutan were entitled to several types of leave, including yearly leave, sick leave, and maternity leave, as per the terms of their employment contracts and the country's labor regulations.

**Severance and termination:** Employment contracts and labor laws must be followed while terminating a job. In certain situations of termination, severance pay may be necessary.







**Occupational health and safety:** In Bhutan, employers are in charge of ensuring that their staff members work in a secure and healthy workplace. The objectives of occupational health and safety standards and laws are to safeguard employees' health.

**Rights of employees and collective bargaining:** The right of employees to organize into unions and participate in collective bargaining is recognized by Bhutanese labor laws. Workers are allowed to strike as long as they comply with specific legal restrictions.

**Foreign workers:** Bhutan has laws governing the hiring of foreign workers, including requirements for work visas and permits.

**Child labor:** Bhutan forbids child work and has put in place certain rules to safeguard children's rights. The typical legal working age is 18 years old.

**Equal opportunity and non-discrimination:** Bhutanese labor laws support equal opportunity and forbid hiring decisions that are biased on the basis of gender, color, religion, or other characteristics.

**Social security and provident fund:** Bhutan has social security and provident fund programs in place to offer financial security to employees in a variety of sectors. Pensions, health coverage, and other benefits might be included in these plans.

**Employment Conflicts:** Labor tribunals or other bodies may offer mechanisms for resolving employment-related conflicts, including grievances and labor disputes.

# Employment polices



**Generation of Employment:** Bhutan's employment policies prioritize creating possibilities for its population to work meaningfully and profitably. This includes encouraging the creation of jobs across the economy, especially in fields that support the nation's development objectives.

**Youth employment:** The issues related to youth unemployment are given particular focus. Bhutan has put in place laws and initiatives to ease young people's transition from education to employment. Initiatives for skill development and vocational training fall under this category.

**Public-Private Alliances:** Government and private sector cooperation is frequently urged to promote job creation and economic expansion.

**Inclusive Employment:** Bhutan's employment regulations strive to be inclusive, guaranteeing that people from disadvantaged groups, such as women and people with disabilities, have equal access to job opportunities.

**Labor Migration & Mobility:** Bhutanese employment regulations may take into account labor migration and mobility, particularly for individuals looking for work abroad. These policies frequently contain safeguards for the welfare and rights of Bhutanese workers overseas.

**Work-Life Harmony:** Bhutan encourages work-life balance because it understands how important health and quality of life are. Policies may promote family-friendly behaviors and flexible work schedules.



# 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.

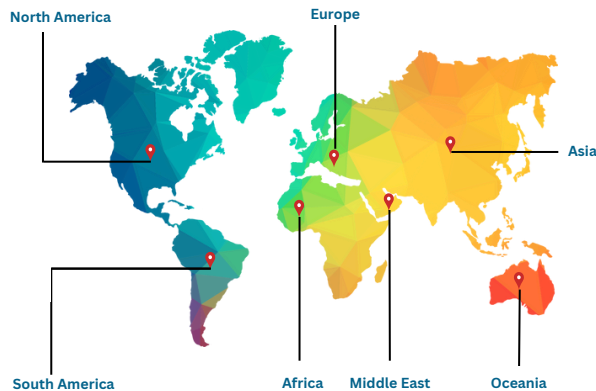
Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. Our team describes the legal and a tax implication of each option and assists in picking the best option based on objectives and circumstances.

Our team can Investigate and identify any licenses, permissions, or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.



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