Section 1

Nepal - Overview
India Nepal Relationship

- Nepal is one of the world’s lesser developed countries & has immense potential for development, especially in the natural resource, tourism and hydroelectricity sectors. It relies heavily on foreign aid.

- Nepal is a tiny landlocked country, with a population of 29 million. It is located in South Asia between China in the north and India in the south, east and west.

- As close neighbors, India and Nepal share a unique relationship of friendship and cooperation characterized by open borders and deep-rooted people-to-people contacts.

- The India-Nepal Treaty of Peace and Friendship of 1950 forms the bedrock of the special relations that exist between India and Nepal.

- India is Nepal’s largest trading partner and the largest source of foreign investments, besides providing transit for almost the entire third country trade of Nepal. India accounts for over two-thirds of Nepal’s merchandise trade, about one-third of trade in services, 46% of foreign direct investments, almost 100% of petroleum supplies and a significant share of inward remittance on account of pensioners and workers.

- Government of India provides development assistance in Nepal, focusing on creation of infrastructure at the grass-root level, under which various projects have been implemented in the areas of infrastructure, health, water resources, education and rural and community development.

- Nepal has a double tax avoidance treaty with limited countries, including India.
# Doing Business in Nepal: Key Indicators

<table>
<thead>
<tr>
<th>S.No</th>
<th>Parameter</th>
<th>Rank*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ease of Doing Business</td>
<td>110</td>
</tr>
<tr>
<td>2.</td>
<td>Ease of starting a business</td>
<td>107</td>
</tr>
<tr>
<td>3.</td>
<td>Getting Credit</td>
<td>99</td>
</tr>
<tr>
<td>4.</td>
<td>Minority Investor Protection</td>
<td>72</td>
</tr>
<tr>
<td>5.</td>
<td>Paying Taxes</td>
<td>158</td>
</tr>
<tr>
<td>6.</td>
<td>Trading across borders</td>
<td>82</td>
</tr>
<tr>
<td>7.</td>
<td>Enforcing Contracts</td>
<td>154</td>
</tr>
</tbody>
</table>

*Out of 190 countries

The indicators reflect that Nepal is a mixed bag with unexpected strength in some areas whereas bottlenecks is reflected in majority of the areas.

Section 2

FI Regulations in Nepal
The law relating to Foreign Investment (‘FI’) in Nepal has recently been amended by the promulgation of Foreign Investment and Technology Transfer Act (‘FITTA’), 2075 (2019), which has replaced the erstwhile FITTA, 2049 (1992).

It has been introduced with an intention to provide a boost to the FI environment in Nepal through stream-lined and simplified procedures and clarity in law.

FI includes the investments by a foreign investor in Nepal,
- through shares in foreign currency,
- reinvestment of earnings,
- lease financing of specified equipment (up to prescribed threshold),
- investment in venture capital funds (VCFs) by institutional foreign investors,
- investment in listed securities through secondary market by VCFs,
- acquisition of shares/assets of existing companies,
- issuance of securities in foreign capital market,
- investment made through technology & know-how transfer agreement (with cap on royalty)
FI in Nepal

• A foreign investor includes any foreign individual, firm, company, Non-resident Nepali, foreign government, international agencies, and foreign institutional investors.

• Generally, 100% FI is allowed. However, there are certain list of activities where FI is not allowed, generally referred to as the negative list.

• Foreign investors are allowed to invest only in public limited companies and in private limited companies registered with the Office of Company Registrar.

• Currently, each foreign investor is required to invest minimum of NPR 50 million (USD 0.5 million) in Nepal.

• Provisions for ‘Automatic approval’ and ‘Single point service center’ have been introduced.
Entry Options in Nepal
An entity is required to be set up by a foreign company if it carries on business / transaction in Nepal for a period of one month or more in a financial year.
Types of Business Entities

Liaison Office
• They are permitted to be the point of contact offices in Nepal
• Very limited promotional activities can be carried out.
• They are not permitted to engage in any income earning activity in Nepal.

Branch Office
• It is permitted to carry out activities for which it is formed subject to requisite approvals.
• As a matter of practice, the approval for setting up a branch office in Nepal is granted only when there is a contract with the Nepali government or government agency.

Company
• A foreign investor is permitted to set up a company only with a single business objective.
• A foreign investor can set up a company in Nepal relating to any of the sectors (except those mentioned in negative list).
## Nepal – Regulatory landscape

<table>
<thead>
<tr>
<th>Regulatory Laws</th>
<th>Foreign Investment (‘FI’) Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indirect Tax Laws</strong></td>
<td><strong>Direct Tax Laws</strong></td>
</tr>
<tr>
<td>Excise Act, 2058 (2002)</td>
<td></td>
</tr>
<tr>
<td>Customs Act, 2064 (2007)</td>
<td></td>
</tr>
<tr>
<td><strong>Other key economic laws</strong></td>
<td></td>
</tr>
<tr>
<td>Labor Act, 1992</td>
<td>Bonus Act, 1974</td>
</tr>
<tr>
<td>Insurance Act, 1992</td>
<td>Foreign Exchange (Regulation) Act, 1962</td>
</tr>
<tr>
<td>Environment Protection Act, 2053 (1997)</td>
<td></td>
</tr>
</tbody>
</table>
Section 5

Nepal – Tax landscape
Taxes in Nepal

Indirect Tax
- Value Added Tax
- Customs duty
- Excise duty

Direct Tax
- Income Tax

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**Snapshot of Direct Tax in Nepal**

- Income year in Nepal is calculated from mid-July of one year to mid-July of the following year - the exact dates vary as per local calendar.
- Tax at the rate of 25% of the net profit is applicable for companies in Nepal (with concessional rates for industries operating in specified areas).
- Nepal has the Tax Treaties with the following countries:

<table>
<thead>
<tr>
<th>Austria</th>
<th>India</th>
<th>Pakistan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Mauritius</td>
<td>Qatar</td>
<td>Thailand</td>
</tr>
<tr>
<td>China</td>
<td>Norway</td>
<td>Sri Lanka</td>
<td></td>
</tr>
</tbody>
</table>

- There are provisions in the domestic tax laws of Nepal which restricts treaty benefits to only those persons who satisfy the following conditions –
  - The person is a resident of the other country and
  - 50 percent or more of the underlying ownership of the entity should be held by individuals or entities who are residents of that country.
**Snapshot of Direct Tax in Nepal (contd.)**

**Taxability of Individual**

- **Resident**
  - Taxed on the global income earned during the tax year
  - Taxed at a slab rate on the Total Income during a tax year

- **Non-Resident**
  - Taxed only on the income earned or received in Nepal during the tax year
  - Taxed at a flat rate of 25% on the Total Income during a tax year

**Resident:** - Place of normal residence is in Nepal; or
- Stayed in Nepal for 183 days or more in a fiscal year; or
- Posted by the Government of Nepal to a foreign country at any time during an year.

*Employers are required to withhold tax from the salary of employees*

*Return filing* deadline for individuals is 3 months from the end of fiscal year, i.e. mid-October of each year.
## Snapshot of Indirect Tax in Nepal

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Added Tax</strong></td>
<td>Value Added Tax (VAT) is levied on supply of all goods and services within Nepal except exempted and zero rated items as listed under schedule 1 or 2 of the Act respectively.</td>
</tr>
<tr>
<td><strong>Customs Duty</strong></td>
<td>Customs duty is a tax imposed on goods when transported across international borders.</td>
</tr>
<tr>
<td><strong>Excise Duty</strong></td>
<td>Excise duty is levied on specified goods and merchandise imported into Nepal or manufactured in Nepal.</td>
</tr>
</tbody>
</table>
# Snapshot of Transfer Pricing in Nepal

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transfer Pricing Law</strong></td>
<td>Nepal tax laws has provisions on Transfer Pricing which covers transactions between “associated person”. The law, in brief, states that transaction should be at arm’s length price.</td>
</tr>
<tr>
<td><strong>Filing requirements</strong></td>
<td>Presently, there is no filing requirement or requirement to prepare a detailed Transfer Pricing Study Report in Nepal. Accordingly, no local standard requirement or compliances to be done.</td>
</tr>
<tr>
<td><strong>Recommendations</strong></td>
<td>As per commonly accepted TP regulations worldwide, it is advisable that the company maintain adequate documentation to justify the arm’s length nature of the transactions with associated persons. Reference can be drawn to OECD principle for documentation.</td>
</tr>
</tbody>
</table>
Section 6

Compliances to be carried out
Overview of the compliances to be carried out

- Maintain books of accounts as per local GAAP
- Advance tax deposit in 3 instalments
- Return of Income to be filed by mid-Oct (extension of 3 months may be obtained)
- Audited Annual Accounts to be filed by mid-Oct
- WHT and VAT Returns to be filed periodically
Section 7

Nepal – Service offerings
**Service offerings in Nepal – Entity Set-Up**

**Services relating to Entity set-up**

- Jurisdictional Analysis – Commenting on the preferred investment jurisdiction
- Analysis of the appropriate entity structure to be set up in Nepal
- Assistance in obtaining registration of the chosen entity form with the competent authorities.
- Assistance in obtaining permission from Department of Industry/Office of Company Registrar.
- Assistance in obtaining Permanent Account Number (‘PAN’) & VAT registration.
Service offerings in Nepal – Ongoing services

Corporate Tax Matters

- Filing of Income Tax Return.
- Filing of withholding tax Returns including computation of withholding tax liability.
- Compliance with Advance Tax provisions including filing of estimated income statements.
- Filing of annual return to the company registrar’s office
- Advise on various Direct Tax matters and regulatory matters.

Individual Tax Matters

- Assistance in obtaining PAN registration and de-registration.
- Filing of Income Tax Return
- Compliance with Advance Tax provisions including filing of estimated income statements.
- Filing of withholding tax Returns including computation of withholding tax liability.
- Obtaining tax clearance certificates.
- Advise on various Direct Tax matters and regulatory matters.
Service offerings in Nepal – Ongoing services (contd.)

Indirect Tax Matters

• Filing of VAT Returns
• Computation of VAT liability
• Advise on various Indirect Tax matters

Transfer Pricing Matters – Compliance and Advisory Services

• Understanding of the international transactions.
• Review of relevant agreement/ arrangement between related parties.
• Doing a functional, risk and assets (FAR) analysis to understand the role and responsibility of related parties.
• Undertaking comparability / benchmarking analysis
• Commenting from arm’s length perspective.
Section 8

Credentials
Credentials

Leading Telecom company in Nepal*
Advisory assistance on change in holding structure and its implication
Mergers & Acquisitions

Leading Beverage company*
Analysis of restructuring options
Mergers & Acquisitions

Leading Infrastructure and Construction company*
Analysis of existing holding structure and implications of transfer / infusing of additional equity
Mergers & Acquisitions

Leading Airline Repair service company*
Analysis of entry strategy and business structure
Mergers & Acquisitions

Leading mobile phone manufacturer company*
Advisory assistance on PE exposure and tax exposure for proposed set up in Nepal
Tax & Regulatory services

Leading internet search engine company*
Advisory assistance on PE exposure and tax exposure for proposed set up in Nepal
Tax & Regulatory services

Cloud service providers*
Advisory assistance on PE exposure and tax exposure for proposed set up in Nepal
Tax & Regulatory services

Healthcare equipment manufacturing company*
Advisory and regular compliance assistance
Tax & Regulatory services

Company involved in execution of power projects*
Advisory and regular compliance assistance
Tax & Regulatory services

Leading mobile phone manufacturer company*
Advisory assistance on PE exposure and tax exposure for proposed set up in Nepal
Tax & Regulatory services

E-commerce company*
Advisory assistance on PE exposure and tax exposure for proposed set up in Nepal
Tax & Regulatory services

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Sushmita Basu
Partner and Leader
India, Bangladesh & Nepal Tax and Regulatory Practice

Introduction
• Sushmita Basu is a Partner with PwC India and leads the Tax and Regulatory practice for Nepal.
• She has played key role in establishing and expanding the Tax and Regulatory practice for Nepal.
• She has joined PwC in January 1999 and since then has held various roles in the firm.
• She is a qualified Chartered Accountant from the Institute of Chartered Accountants of India and has more than 24 years of professional experience in providing advisory and litigation support to both domestic and foreign clients in matters relating to regulatory and corporate / international taxation. She appears regularly before the Appellate Tribunals and provides litigation support to various Indian and multinational clients.
• She has been advising various multinational & domestic companies, across a wide spectrum of tax & regulatory services.
• Her clients in India include ITC, RP-SG Group Co., Tata Group, Cathay Pacific, Thai Airways, Berger Paints, Saregama, Kesoram, Usha Martin, Royal Brunei etc.
• She has played key roles in providing services to multinational clients in Nepal which include GE Power, Malaysian Airlines, Tetrapak.

Selected Service Experience
• Corporate tax advisory i.e. entry & entity strategy formulation, jurisdictional analysis, advisory & compliance services
• Mergers & acquisitions including Tax Due Diligence, review of Tax Deed, etc.
• Advising on Foreign exchange and regulatory laws
• Advocacy on behalf of clients before the regulatory authorities
• International assignment tax, immigration & payroll services

Other capabilities
• Conducted training of Revenue officials in Bangladesh on the subject of Transfer Pricing Laws
• Participated as a distinguished panellist in various TV programs and has written articles in leading newspapers and journals
• Participated as a distinguished panellist and speaker at seminars and workshops organised Institute of Chartered Accountants of India, Direct Tax Professionals Association, CH, Assocham, Merchants Chamber of Commerce, Indian Chamber of Commerce, Bengal Chamber of Commerce and Industry, Indo American Chamber of Commerce, IIM, Calcutta, Birla Institute of Technology Management
• Member of Bengal Chamber of Commerce & Industry, Merchant Chamber of Commerce and Bharat Chamber of Commerce.
Bikash Chanda
Associate Director

Engagement Role
India, Nepal & Bangladesh Tax and Regulatory Practice

Introduction
- Bikash Chanda is an Associate Director with PwC India.
- He has played an important role in establishing and expanding the Tax and Regulatory practice for Nepal.
- He is a qualified Chartered Accountant from the Institute of Chartered Accountants of India and has more than 8 years of professional experience in providing advisory and litigation support to both domestic and foreign clients in matters relating to regulatory and corporate / international taxation.
- He has been advising various foreign companies, including PwC network clients on Nepal domestic tax law related issues, providing assistance in compliance & litigation support in Nepal under Income Tax Act, 2002, assisting foreign companies in tax due diligence, tax related meetings with the Inland Revenue Department, etc.
- He has clients in India includes ITC, Kesoram, Usha Martin, etc.
- He has played an important role in providing services to multinational clients in Nepal which include ITC, Coca-Cola, Google, Amazon, Axiata, GE Power, Malaysian Airlines, Tetrapak, etc.

Selected Service Experience
- Corporate tax advisory i.e. entry & entity strategy formulation, jurisdictional analysis, advisory & compliance services
- Mergers & acquisitions including Tax Due Diligence, review of Tax Deed, etc.
- International assignment tax, immigration & payroll services
- Advising on Foreign exchange and regulatory laws

Other capabilities
- Conducted training of Revenue Department in Nepal on the subject of Permanent Establishment exposure.
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Thank you...