

UNDER THE INCOME TAX ACT

The Income Tax Act provides various tax incentives to encourage industrial development, particularly in rural and remote areas, and to support employment generation. The key provisions are as follows:

- Industries established in rural and remote locations or generating employment are eligible for tax concessions under specific criteria.
- Industries involved in tobacco and alcohol production are **not** eligible for income tax incentives. However, they are allowed to deduct expenses related to:
 - Employee welfare programs
 - Environmental protection tools and systems
 - Research and development (R&D)
 - Energy efficiency improvement initiatives
- If an industry qualifies for multiple tax exemptions on the same income, it can **choose only one** exemption.
- Industries (excluding tobacco, alcohol, and casinos) may use their accumulated profits for:
 - Expanding production capacity
 - Investing in equity of industries related to production, energy, agriculture, or forest products
 - Dividends earned from such investments are **exempt from dividend distribution tax**.
- Cottage and small-scale industries that were registered and operational before the enactment of this Act, or are registered with fixed capital up to NPR 10 million, are eligible for a **50% tax concession**.

TAX EXEMPTIONS UNDER INCOME TAX ACT

S.N	Particulars	Criteria	Exemption
1	Any person other than Registered Firm, Company, Partnership & Corporate	"Income earned from agricultural activities—excluding income from agricultural business conducted on land as specified in clauses (d) and (e) of Section 12 of the Land Act, 2021—is eligible. However, as stated in Clause 1 of the negative list under the FITTA, foreign investment in agriculture is prohibited."	100%
2	Registered Firm, Company, Partnership & Corporate	Activities related to agricultural business, vegetable dehydration, and cold storage. Note: As per clause 1 of the negative list of FITTA, foreign investment in agriculture is disallowed.	100%
3	Any Cooperatives or Association registered under the Cooperative Act, 2074	a) Income from sericulture, silk production, fruit farming, animal husbandry, dairy, poultry, fish farming, tea/coffee/ginger farming and processing, vegetable seed production, beekeeping, honey, rubber, community forestry, etc. b) Dividend distributed by such organization	100%
4	Any Person	Earning interest income from deposits in a microfinance institution, rural development bank, postal saving bank, and cooperatives (up to NPR 25,000 per annum)	100%

5	Special Industries	Agricultural production or manufacturing industry (excluding tobacco and alcohol) fully operated throughout the year. Note: Foreign investment in agriculture is restricted under FITTA.	20%
6	Special Industry and Information Technology Industry (Employment-Based)	Direct employment to:	
		a) 100 or more Nepali citizens	a) 90%
		b) 300 or more Nepali citizens	b) 80%
		c) 500 or more Nepali citizens	c) 75%
		d) 1000 or more Nepali citizens	d) 70%
		Additional 10% exemption if 100 or more disabled Nepali citizens are employed	
7	Special Industry (Area-Based)	Tax exemption for 10 years from the start of production/transaction if located in:	
		a) Remote areas	a) 90%
		b) Undeveloped areas	b) 80%
		c) Less developed areas	c) 70%
		Note: Previously used property duration also counted toward the exemption period.	
8	Special Industry (Mountainous areas of Karnali and Far-western Province)	Direct employment to 100 or more Nepali citizens per year	100% for the first 15 years from the date of starting operation
9	Special Industry (New or Additional Investment-Based)	a) Newly established industry or tourism industry (excluding casinos) investing over NPR 1000 million and employing over 500 persons	a) First 5 years – 100%, Next 3 years - 50%
		b) Existing industry increasing capacity by at least 25%, with capital exceeding NPR 2000 million and employing over 300 persons	b) First 5 years – 100%, Next 3 years - 50% (on income from enhanced Capacity)
10	Micro-enterprise	Commencement of Business/Transactions. But due to clause 2 of negative list of FITTA 2019. Note : such investment is disallowed for foreign investor	First 7 Years -100%, Additional 3 Years (If operated by women entrepreneur)
11	Entity	1. Operates any project such as building	20%
		2. Operate public infrastructure to be transferred to GON	
		3. Building powerhouse	
		4. Generation & Transmission of electricity	
12	Special Industry (Industrial region or village)	Established and operated on industrial region or industrial village	After commencement of operation: First 3 years - 50%, Next 5 Years - 25%
13	Any Person	Raw material or Auxiliary Raw material produced in Nepal and sold to special industries	20% on such income
14	Start up Business with annual income upto 1 crore Nepali rupees	With innovative knowledge, thinking, skills, diversity etc.	100% for first 5 years after commencement of operation
15	Any special industry operating in Kathmandu Valley	Relocates outside the valley	After commencement of operation after relocation: First 3 Years

			-100%, Next 2 Years - 50%
16	Industries producing new products that significantly impact environment	After commencement of operation	After commencement of operation For first 3 years-50% Next two years-25%
17	Industries producing vaccines, oxygen gas, and sanitary pads	After commencement of operation	After commencement of operation For first 5 years-100% Next two years-50%
18	Industries producing agricultural tools	After commencement of operation	After commencement of operation For First 5 years-100%
19	Any person engaged in construction or operation of infrastructure	Agreement with Government of Nepal for construction and operation of any infrastructure and income earned from such activities till its conclusion (Transaction or operation already started)	Tax facilities provided by the relevant laws in effect at the time of that agreement
20	Industry located in Special Economic Zone (Transaction or operation have already started)	a) Mountainous and hilly districts specified by GON	a) First 10 years - 100%, Subsequently - 50%
		b) SEZ other than above	b) First 5 years - 100%, Subsequently - 50%
		c) Dividend distribution	c) First 5 years - 100%, Next 3 years - 50%
		d) Foreign technology/management service charge or royalty income of foreign investor	d) 50%
		Note: Facilities not available if property is old and used previously for same or other business	
21	Industry located in specified geological, biotech park, operation and technology park	Income from Software development, data processing, cybercafe, digital mapping fees But If the property is an old property used by other person for the operation of industry or business of the same kind or other kind, the facilities shall not be available. Note: Facilities not available if property is old and used previously	50%
22	Licensed person or entity engaged in electricity business	a) Production, transmission or distribution of electricity (Hydro, solar, wind, biological) started till Chaitra 2084 (mid March 2028)	a) First 10 years - 100%, Next 5 years - 50%
		b) Reservoir and semi reservoir water hydropower projects with capacity 40 MW or less, financial closure completed within Chaitra 2085, and lower coastal hydropower projects operated in tandem	b) First 15 years - 100%, Next 6 years - 50%
23	Export Oriented Industries	Income earned from exportation of goods or services:	
		a) By resident individual taxable @ 20%	a) 25%
		b) By resident individual taxable @ 30%	b) 50%
		c) Other entity	c) 20%
		d) Foreign currency earning by BPO, software programming, cloud computing, etc.	d) Till FY 2084/85: 50% on foreign currency earnings

24	Any Entity	Income earned from following activities exempted for 10 years after commencement of operation:	
		a) Operation of tram or trolley bus	a) 40%
		b) Build and operation of ropeway, cable car, or sky bridge	b) 40%
		c) Construction and operation of road, bridge, tunnel, railway, airport	c) 50%
25	Listed entity	Income from:	15%
		a) Production based tourism service, hydropower generation, distribution, and transmission b) Software development, data processing, cybercafe, digital mapping located in zoological, geological, biotech park, operation and technology park specified by Government of Nepal	
26	Entity engaged in brandy, cider & wine based on fruits	Located in:	After commencement of operation
		a) Remote area	a) 40%
		b) Underdeveloped area	b) 25%
27	Any person	Income from Intellectual Property Right (IPR) by way of:	
		a) Royalty Income	a) 25%
		b) Transfer/sale of IPR	b) 50%
28	Entity engaged in tourism or airlines company	Operating international flight or tourism-related company with capital investment:	
		- >1000 million NPR	After commencement of operation First 5 years-100% Next 3 years-50%
		- >3000 million NPR	After commencement of operation First 10 years-100% Next 5 years-50%
		- >5000 million NPR	After Commencement of Operation, First 15 years - 100%
29	Special industry or industry related to tourism sector	Dividend Distribution: Capitalizes accumulated profit into shares for capacity increase and has distributed dividend from such capitalization	100%
30	Company (Conversion from Private to Public)	Paid-up capital 500 million or more. Companies established under Company Act, 2063 not eligible	First 3 years - 10%
31	Entity engaged in tea, dairy or textile industry	1. Domestic tea producing and processing industry, dairy industry with milk products transaction 2. Textile Industry	50%
32	Community Institution	Health institution operation	20%

UNDER CUSTOM ACT

Industries registered under this IEA will be entitled to the following exemptions, benefits or facilities:

- Industries engaged in the production of intermediate goods used in the manufacture of export-oriented industrial products shall be **entitled to a refund** of duties paid on input goods, **proportionate to the actual volume of exports**. To claim this benefit, the concerned entity **must submit the refund application within one year** from the date of export, failing which the claim shall be deemed invalid.
- Quality testing laboratories shall be **entitled to import machinery and scientific equipment** required for quality testing, as well as machinery and equipment for research and development, **at the lowest applicable customs duty slab**. This facility is granted to promote high standards in testing and innovation, and **shall be enforced without exception** for eligible institutions.
- The customs duty on raw materials, auxiliary raw materials, and packaging materials **shall be levied at one slab lower** than the applicable rate for imported finished goods produced from such materials. This provision **ensures a competitive edge for domestic production** and **shall be strictly applied to all qualifying imports without exception**.
- Industries that do not utilize bonded warehouse facilities but either **export their products through formal banking channels** or **sell their goods domestically in foreign currency** shall be **eligible to import raw materials, auxiliary raw materials, and packaging materials** by furnishing a guarantee in accordance with customs regulations. **Provided that the Department of Industry certifies and recommends that the required packaging material is not produced in Nepal**, such imports shall be **permitted without restriction**, and the facility **must be granted in full compliance with the prevailing legal provisions**.
- Industries shall be **entitled to import machinery, transformers, generators with a capacity exceeding 10 KW, and industrial tools** at the **lowest applicable customs duty slab**. This provision is **mandatory and aimed at promoting industrial growth**, and **must be fully enforced without exception** for all qualifying imports.

ADDITIONAL BENEFITS AND CONCESSIONS UNDER INDUSTRIAL ENTERPRISE ACT

The following additional exemptions, benefits, and concessions shall be **mandatorily granted** to eligible industries as specified below:

- **Right to use a designated forest area** shall be granted on lease, under agreed terms and conditions, to forest products-based industries, strictly in accordance with prevailing law.
- **No royalty or charges** shall be imposed on electricity generated for **own consumption** by an industry, and any **excess electricity** produced may be **sold at a mutually agreed rate**.
- The Government of Nepal (GON), through **official gazette notification**, may grant **additional concessions or benefits** to export-oriented industries, industries established in SEZs, and those operating in government or private industrial areas.
- **Additional exemptions, benefits, and concessions** shall be granted, upon **recommendation by the Board**, to industries classified under national priority,

industries using domestic raw materials, labor-intensive industries, and industries established through innovation in goods and technology.

- Based on the extent of electricity supply interruption, **concession on demand charges** included in electricity bills may be granted by GON to the affected industry.
- GON shall **provide seed capital** to cooperatives, micro, cottage, and small industries for establishing industries in **remote areas**.
- Industries established through **foreign investment** or **multi-national companies** shall be permitted to import new products or goods, manufactured by their parent company abroad, into Nepal for a **limited period**, under specified terms and conditions, for **promotion or market development purposes**.
- Excluding industries based on **tobacco, liquor**, and others specified in Section 17(2), industries such as **production-based, agriculture/forest product-based, and mining industries** shall be granted **all exemptions, facilities, and concessions** prescribed by GON.
- **Concessions on import duty** shall be provided for the import of **machinery, equipment, tools, and new technology** aimed at **capacity enhancement** of micro, cottage, and small industries.
- GON may provide **additional exemptions, facilities, and concessions** for industries established in **industrial areas, product-specific zones, and industrial villages**.
- GON may extend **further exemptions, facilities, and concessions** to industries registered in **extremely undeveloped, undeveloped, and underdeveloped areas**.
- Industries located within an **industrial area, cluster, corridor, or village** shall be granted **specific and targeted benefits** by the GON.