



INDUSTRIAL ENTERPRISE ACT 2016

SALIENT FEATURES

- Industry cannot be operated or established without registering as per this Act. For registration of the industry, digital signature is applicable while relevant documents can be submitted online as well.
- Registration Certificate of the industry will be provided within 15 days of the submission of the application, thereafter investor, if required, needs to conduct Environmental Impact Assessment (EIA) or Initial Environmental Examination (IEE).
- Export Industry has to export at least 60 percent of its products.
- Licensing/Permission from the Industry and Investment Promotion Board, chaired by the Industry Minister, is required to establish following industries:
 - o industry producing explosives including arms and ammunitions, gun powder, security printing, bank notes and coin industries
 - o Cigarette, bidi, cigar, chewing tobacco, khaini industries and industries producing other goods of similar nature utilizing tobacco as the basic raw material, alcohol and beer producing industries
 - o industry producing sand, stones and pebbles including precious minerals and petroleum product excavation.
 - o industry producing radio communication equipment
- Investor is required to commence its operations as stated in the Registration Certificate. It is investor's responsibility to inform the Department of the commencement of operations. Failing to do so will lead to the cancellation of the registration.

CLASSIFICATION OF INDUSTRY, ON THE BASIS OF FIXED ASSETS

1	Micro Industry	- Maximum of nine employees including the investor - Annual turnover of maximum amount of NRs. 5 million - Maximum application of 20 KV energy - Maximum fixed asset of NRs. 500,000
2	Cottage Industry	- Based on traditional skill and technology - Maximum application of 10 KV energy - As stated in the Annex 2 of the IEA
3	Small Industry	- Apart from micro and cottage industry, maximum fixed asset of 100 million Nepalese rupees
4	Medium Industry	- Fixed asset between 100 to 250 million Nepalese rupees
5	Large Industry	- Fixed asset of more than 250 million Nepalese rupees

CLASSIFICATION OF INDUSTRY, ON THE BASIS OF ITS NATURE

1	Energy based Industry	Industry generating energy from water resources, wind, solar, coal, natural oil and fuel or gas, biomass and similar types of energy producing industry; energy transmission; energy distribution
2	Manufacturing industry	industry based on utilizing or processing of raw materials, auxiliary raw materials, semi-processed materials
3	Agro and Forest based industry	Industry based on agriculture or forest products such as integrated sericulture and silk production, horticulture and fruit processing, animal husbandry including bird, dairy industry, poultry farming, fishery, tea/coffee gardening and processing, herbal processing, vegetable seed farming, vegetable farming or processing, tissue culture, green house, bee-keeping, honey production, rubber farming, floriculture and production, cold storage and agro market, lease hold forests, agro forestry, etc.
4	Minerals based industry	industry based on minerals excavation or processing thereof, except that of metal
5	Construction based industry	Road, bridge, tunnel; ropeway, railway, tram, trolley-bus, cable car, monorail and sliding-car; airway and airport; conference center; waste management; water supply and distribution; irrigation; sport complex and stadium; parking place and parking house; export processing zone; cargo complex; sewage treatment plant; special economic zone; telephone tower, optical fiber network, satellite and satellite transmission center; house and housing complex; film city, film studio; business complex
6	Tourism based industry	Tourist house, motel, hotel, resort and restaurant; travel agency, tour operator, healing center, casino, massage and spa; adventure tourism; golf course, polo, pony trekking, hiking; village tourism, homestay and ecological tourism; cultural, religious, conference and sports tourism; entertainment part; conservation; mountain flight
7	Information, transmission and communication based industry	Information technology based industry like technology park, IT park, biotech park, software development, computer and related services, data processing, cyber café, digital mapping, BPO, data mining, cloud computing. Communication based industry like internet, telecommunication, teleport services, satellite establishment and operation, satellite transmission center, VSAT, broad band, optical network, satellite network Transmission based industry like FM radio, digital radio service, digital television, satellite television, cable television, IPTV and online services, Digital cable TV, network, Direct-to-home satellite services, MMDS Network, recording studio, printing media, entertainment services, etc.
8	Service based industry	Workshop, printing press, consultancy services, ginning and bailing business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, library and museum services, laboratory, air services, sports services, non-agro cold storage, house wiring and electrical fitting and maintenance, waste management services, cargo and courier services, advertising services, packaging and refilling services, foreign employment services, etc

- Apart from movable and immovable assets like physical infrastructure, land and land improvement, machinery and equipment, vehicles, furniture and fixture, expenses incurred in connection to technical consultancy and supervision prior to investment or during different stages of construction (to be capitalized), pre-investment and pre-operation costs as well as the amount of interest during the construction period could also be considered as the Fixed Assets of the industry.
- Manufacturing industries are entitled to receive 20% rebate in income tax. Construction based industry developing road, bridge, tunnel, ropeway, tram, trolley bus, airport, industrial complex and infrastructure complex are entitled to receive 40% rebate in income tax after its operation.
- Any industry other than fruit based brandy, cider and wine producing industries, established in any Remote, Undeveloped, or Underdeveloped Area, shall be granted a rebate of ninety, eighty and seventy percent of the income tax respectively for a period of ten years from the date of operation.
However, fruit based brandy, cider and wine producing industries established in Remote Area shall receive a rebate of forty percent of the income tax for a period of ten years from the date of operation.
- Any manufacturing industry established with more than a billion Nepalese rupees and providing an annual direct employment to more than five hundred people shall be granted exemption from income tax for a period of five years from the date of operation. Furthermore, such industries shall be granted a rebate of fifty percent in income tax for additional three years.
- However, if an existing manufacturing industry increases its installed capacity by a minimum of 25 percent to increase the capital a billion rupees and provides more than five hundred direct jobs, it shall be entitled to the same level of tax exemptions for income earned from such capacity increase.
- Energy based industry, that starts generating, transmitting and distributing energy from water resources, solar, air and bio mass, by the end of Chaitra 2080 (Mid-April 2024), is entitled to receive full rebate on income tax for ten years and 50 percent for additional five years.
- A person involved in excavation and exploration of petroleum or natural gas and fuel starts its operation within the end of Chaitra 2075 (mid-April 2019) is entitled to receive a full rebate on income tax for seven years from the date of operation and 50 percent rebate for additional three years.
- Any tourism based industry established with more than 2 billion rupees and infra-based tourism industry established, other than in Municipality and sub-Municipality, with more than 5 billion rupees- like hotel, resort, etc, shall be granted a full rebate of the income tax for a period of five years from the date of operation and a rebate of 50 percent for additional three years period.
- However, if the existing tourism based industries increase its installed capacity by a minimum of 25 percent to two billion rupees, they shall be entitled to the same level of tax exemptions for the income they earned from such increase.
- Any ICT based industry like technology park, biotech park and industries established in IT park like software development, data procession, cyber café, digital mapping, is entitled to fifty percent rebate on income tax.
- Any manufacturing and communication and information based Industry which provide direct employment to more than three hundred Nepalese are entitled to 15 percent rebate on income tax. If such industries employ more than 1200 Nepalese, they are entitled to 25 percent rebate on income tax. Likewise, if half of those employed are women, dalit and differently-abled person, such industries will receive further 15 percent tax rebate.
- Any manufacturing industries, which export their product, are entitled to receive income tax exemption of 25 percent on such income.
- Expenses related to employee and labor welfare activities or long term benefits will be deducted from taxable income
- Following expenses will be deducted from taxable income:
 - o employee and labor long term benefit or welfare activities;
 - o procurement of/investment in machine or equipment which aims to reduce energy consumption by upgrading energy capacity
 - o expenses on market promotion, survey and advertisement
 - o expenses on safety of the industry or premium on safety insurance of physical infrastructure of the industry
 - o donation of upto rupees one hundred

thousand or an amount of upto 5 percent of its gross income, to tax exempted organization, whichever is less

- Provision on intellectual property
 - o expenses incurred on protection of Intellectual Property in the country will be deducted from taxable income
 - o industry, which exports the Intellectual Property created in the country, is entitled to 25 percent income tax exemption on such royalty income.
 - o industry, which transfers or sells its Intellectual Property created in the country, is entitled to 50 percent income tax exemption on such income.
 - o Government of Nepal shall reimburse the prescribed amount of registration fee on registering the Intellectual property for its protection in foreign countries
- Industry based on tobacco, alcohol and Katha or Kacha is not entitled to receive income tax facilities and concessions. However, their expenses on employee welfare, expenses or investment on system or machinery tools to reduce environmental impact, R&D, expenses to increase energy efficiency shall be deducted from the taxable income.
- Industry is entitled to receive VAT refund. Such refund is based on the amount of the product they export to other countries. Likewise, those who have not utilized the Bonded warehouse or Passbook facilities are entitled to receive Duty Draw back as prescribed by the government.
- Industry which exports its products by using proper banking channel/Letter of Credit or sells its goods inside the country in any foreign currency- but is not using the Bonded warehouse facility, is entitled to import raw materials, auxiliary raw materials or packaging materials, which is not produced in Nepal and is recommended by the Department of Industry, on Bank Guarantee.
- Customs duty of raw materials, auxiliary raw materials and packaging materials is normally one slab lower than applicable for the imported finished goods made from such materials.
- Industry can import machinery, transformer, generator with the capacity of more than 10 KW and industrial tools in the lowest slab of customs duty.
- Additional /incentives have been provided to micro industry and women entrepreneurs.
- Registration of micro industry is free of any registration charges and fees. Likewise, micro industry, established before this act is promulgated, is entitled to receive full income tax exemption for five years from the date of its promulgation. While micro industry established on the basis of this Act is entitled to receive such facility from the date of its operation.
- Industry, with an ownership of woman entrepreneur only, is entitled to 35% discount on industry registration and 20% discount on industrial property registration.
- Woman entrepreneurs are given a priority to establish industry in Industrial Zones while they are also entitled to receive export loan to export their industrial products.
- Industries established in the industrial zones are not imposed with integrated local wealth tax along with other local taxes.
- Industries which generate its own electricity for its own use are not imposed with any fee or royalty charges. Furthermore, industry can sell spill-over electricity after its consumption, in mutually agreed rate, to other industry.
- Industry established with foreign investment, or multi-national company, can import new products or goods, produced by its mother company in other country, into Nepal for limited period with stated terms and conditions, to promote it or for its market development.
- Government shall provide seed capital to cooperative, micro industry, cottage and small industry to establish industry in Remote areas.
- Government shall, if requested, coordinate and facilitate in getting land necessary for the industry. Meanwhile, Government shall also lease out necessary public-owned land for the national priority industry. Government shall allow to hold land necessary for industry beyond the stipulated limit in accordance with prescribed terms and conditions.
- No industry shall be nationalized.
- Government shall provide, if necessary, industrial security to the industry.
- One stop service center shall be established to provide smooth services to investors as well as make available the incentives and concessions to be enjoyed by any industry from a single place.
- The Act has defined Sick Industry as the industry which has, after minimum five years of its operation, been continuously running under 30% capacity utilization and bearing loss for the last three years, because of the situation out of its control. The act has made some provisions for

revival of such sick industry.

- Industry can hire a foreign national for a maximum period of seven years, in a high level managerial position, where no Nepalese national can be hired because of the lack of skill and expertise, and recommended by the Department of Industry with the permission from the Department of Labor.
- A foreign national, working in any industry with prior approval of the Department of Labor and who is from a country where convertible foreign currency is in circulation, may repatriate his/her salaries, allowances, emoluments, etc in convertible foreign currency in an amount not exceeding 75% percent of such salaries, allowances and emoluments.
- Considering sustained industrial relations as the strong base for productivity enhancement, industry shall not pay for no work but this arrangement will be clarified Labor law which is being amended
- Employee cannot organize strikes or closures in an industry, which harms and halts smooth operation of the industry and productions. However, they can put forward their demands

in a peaceful manner and resolve the conflict in mutual agreement with the management.

- Medium or large scale industry or cottage/small scale industry with annual turnover of more than 150 million Nepalese rupees has to allocate at least 1 percent of its annual profit for CSR activities every year. Industry failing to do so is liable for a penalty of 0.75 percent on annual turnover.

