FOREIGN DIRECT INVESTMENT
NEPAL INVESTMENT GUIDE

Kathmandu Business Consultants

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Second Edition, 2026

First Edition, 2024

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Summary of Key Legal Updates Since the Last Edition

This edition has been revised to reflect amendments made to Nepal's FDI framework since the prior edition was published, principally: the Act Relating to Improving Economic and Business Environment and Enhancing Investment, 2081 (2025) amending FITTA and the IEA; the Department of Industry's expansion and de-capping of the Automatic Route (2024-2026); Finance Bill 2083 changes to personal income tax; and the termination of the Nepal-Mauritius Double Taxation Avoidance Agreement. All substantive changes are summarised in the table below:

Area	What Changed
Automatic Route	Investment cap of NPR 500 million removed entirely (Feb 2026 gazette); route now fully operational via imis.doind.gov.np across 102 sub-sectors in 7 categories.
FITTA Amendment	FITTA amended by Act Relating to Improving Economic and Business Environment and Enhancing Investment, 2081 (2025), enacted 31 March 2025.
Transfer of Foreign Investment	Prior DOI approval is now required before a foreign investor sells/transfers equity to a domestic party.
Specialized Investment Funds	Foreign investment can be made in the form of equity through investment in units of a Specialized Investment Fund / venture capital fund.
Loans from Foreign Financial Institutions	Any industry (not only those already holding FDI) may now obtain project loans/financing from foreign financial institutions with NRB approval.
Non-Resident Nepali (NRN) Investment	Investment by NRNs (or entities whose 50% ownership is held by NRNs) must be notified to and approved by the DOI.
Technology Transfer Scope	Expanded to expressly cover IT, marketing and market research, financial services, accounting and auditing, engineering, outsourcing, human resource outsourcing, digital data processing, digital data migration, design services, and other technical skills or knowledge.
Repatriation Timelines	Repatriation approval timeline reduced from 15 to 7 days; appeal decision timeline reduced from 30 to 15 working days;

	NRB/DOI **Recommendation** no longer required for repatriation once the Section 20 process is complete.
Visa for Families of Foreign Experts	Non-tourist visas are now granted to **families** of foreign experts/technical/managerial employees.
Industrial Enterprises Act (IEA)	Positive List expanded - Agricultural Technology & Mechanization added under agro-industries; Packaging/Refilling, LNG/CNG refilling & distribution, Fund Management and Asset Management added as service industries; new Section 12A permits industry ownership transfer with DOI approval within 30 days; EIA no longer required merely to increase share capital.
Personal Income Tax (FY 2083/84)	Single unified slab table for all resident individuals (the separate single/couple schedules have been merged); tax-free/1% band doubled from NPR 5 lakh to NPR 10 lakh; top marginal rate cut from 39% to 29%.
DTAA Network	Nepal formally terminated its DTAA with Mauritius, effective 17 July 2026 (Shrawan 1, 2083) - Nepal's in-force DTAA network is now 10 countries. Negotiations continue with the UK, Malaysia, Singapore, Oman and Japan.

Abbreviations

1. WTO = World Trade Organization
2. BIMSTEC = Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
3. SAARC = South Asian Association for Regional Cooperation
4. NICCI = Nepal-India Chamber of Commerce & Industry
5. FDI = Foreign Direct Investment
6. FITTA = Foreign Investment and Technology Transfer Act
7. FY = Fiscal Year
8. JVA = Joint Venture Agreement
9. DOI = Department of Industry
10. BFIs = Banks and Financial Institutions
11. BITs = Bilateral Investment Treaties
12. NPR = Nepalese Rupees
13. PPPIA = Public Private Partnership and Investment Act
14. IBN = Investment Board of Nepal
15. NRB = Nepal Rastra Bank
16. BPO = Business Process Outsourcing
17. KPO = Knowledge Process Outsourcing
18. USD = United States Dollar
19. OCR = Office of Company Registrar
20. IRD = Inland Revenue Department
21. ITA = Income Tax Act
22. PAN = Permanent Account Number
23. DTAA = Double Taxation Avoidance Agreement
24. VAT = Value Added Tax

25. TDS = Tax Deducted at Source

26. UNCITRAL = United Nations Commission on International Trade Law

27. ICC = International Chamber of Commerce

28. LCIA = London Court of International Arbitration

29. CIETAC = China International Economic and Trade Arbitration Commission

30. HKIAC = Hong Kong International Arbitration Centre

31. SIAC = Singapore International Arbitration Center

32. IEA = Industrial Enterprises Act, 2020 (2076)

33. SIF = Specialized Investment Fund

34. NRN = Non-Resident Nepali

1. Introduction

Nepal is a landlocked country that lies between India and China. Over the past several years, it has emerged as a centre for economic growth and development due to its strategic location, making it an attractive destination for new business endeavours. Nepal has legislative investment protection in effect, ensuring that every investment is protected; investors can exercise rights that safeguard their investments and properties from nationalisation, and are entitled to full repatriation of gains made from their investments (NICCI, 2024).

Since Nepal has opened up a wide range of sectors to foreign investment, the country has emerged as a vibrant destination for such investment. Most of Nepal's economic sectors are open to 100 percent foreign ownership, while some industries have limits on the amount of international investment allowed. Foreign investment is welcomed across a wide range of economic disciplines and business sizes.

The government has continued to prioritise foreign investment facilitation. The Automatic Route has been expanded and its investment ceiling removed which was previously capped to NPR 500 Million. Also, FITTA and the IEA have both been substantively amended to widen the scope of permissible foreign investment and streamline approvals.

Nepal is considered as a liberal trade promotion country and a desirable investment destination in terms of investment possibilities, conditions, incentives, and infrastructure. In other words, Nepal's trade and investment opportunities are secure and profitable due to an investment friendly environment, flexible rules and regulations that are consistent with the spirit of globalisation and liberalisation, affordable labour, harmonious understanding among the government, employers, and trade unions, and free access to the vast Indian market for joint venture products (Ministry of Foreign Affairs).

Nepal is a member of the World Trade Organisation (WTO), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the South Asian Association for Regional Cooperation (SAARC), which oversees implementation of the South Asian Free Trade Agreement. This will create new opportunities for investors in Nepal.

2. FDI Legality in Nepal

2.1 Negative and Positive Lists

FDI in Nepal is only permitted in industrial activities, not in trade-related activities. The proposed business activity must not be prohibited for FDI by FITTA. Two tests determine the legality of FDI in Nepal:

Negative List

Foreign investors are not authorised to engage in the following sectors in Nepal:

S.N.	Industries in the Negative List
1	Poultry farming, fish farming, bee keeping, fruits, vegetable, oil seeds, pulse seeds, milk industry and primary agricultural production, except large-scale industries, agricultural technology and mechanization, related to these sectors which export more than 75% of their production.
2	Small and cottage industry.
3	Personal service business (such as hair salon, tailoring, driving, etc.).
4	Industry manufacturing arms and ammunition, bullets and shells, gunpowder, explosive materials, nuclear, biological and chemical (N.B.C.) weapons, atomic energy, radio-active materials.
5	Real estate business (other than construction industries), retail business (excluding international chain retail business operating in at least two countries), internal courier service, local catering service, moneychanger, remittance service.
6	Travel agency, guide, trekking and mountaineering guide involved in tourism, and rural tourism including homestay.
7	Mass communication media (newspaper, radio, television and online news), and motion pictures of national language.
8	Management, account, engineering, legal consultancy service and language training, music training, computer training.
9	Consultancy service having foreign investment of more than 51%.
10	Ride-sharing business having more than 70% foreign investment.
11	**Industries involved in aircraft operation, training, repair and maintenance, and passenger service facilities, beyond:** **(a) International Airlines - 80%;** **(b) Domestic Airlines - 49%;**

S.N.	Industries in the Negative List
	(c) Training Institutions - 95%; **(d) Repair and Maintenance Institutions - 95%.**

Foreign investors, and foreign-invested industries, are now expressly prohibited from reinvesting profits earned - or making any further investment - in industries listed in this Negative List (Schedule) (Section 3(2) of FITTA, 2075).

Also, the amount of foreign investment approved may be transferred to any person or entity, in whole or in part, by obtaining prior approval of the DOI.

Positive List

The positive list includes any industry other than those included in the Schedule" (i.e., the Negative List). Below mentioned are the industry classification as per Industrial Enterprises Act, 2076:

S. No.	Industry Classification	Industry Sub-classification
1.	Energy-based Industry	● Industries generating energy from hydropower, wind, solar, coal, natural oil and fuel, gas, biomass, or other sources ● Electricity transmission line ● Electricity distribution line ● Feasibility study of energy
2.	Agriculture and Forest Industry	● Fruit farming or processing ● Production of milk and dairy products ● Furniture industry ● Cold storage ● Paper production ● **Agricultural technology and mechanization**
3.	Infrastructure Industry	● Road, bridge, tunnel ● Ropeway, railway, tram, trolley bus, monorail ● Airport, cargo complex ● Business complex ● Irrigation infrastructure
4.	Tourism Industry	● Motel, hotel, resort, bar, and restaurants

S. No.	Industry Classification	Industry Sub-classification
		● Travel agency, tour operator, healing center, casino, spa ● Adventurous tourism: trekking, skiing, paragliding, canoeing, mountaineering, rafting, hot air ballooning ● Construction and operation of cable car ● Cruise, water entertainment and boating
5.	Information, Communication and Technology Industry	● Internet Service Provider ● Software development ● Data center, data mining, cloud computing ● Broadband infrastructure, telecom tower, optical network, satellite network ● Business process outsourcing, knowledge process outsourcing
6.	Service-oriented Industry	● Investment companies ● E-commerce ● Business incubation service ● Construction business ● Hospitals, nursing homes, clinic, polyclinic, physiotherapy clinic ● **Packaging and refilling services, including LPG-gas refilling and vehicle-gas refilling stations; natural-gas (LNG/CNG) refilling or distribution** ● **Fund management** ● **Asset management**
7.	Manufacturing Industry	● Industries manufacturing products using or processing raw materials, e.g. cement, plastics.
8.	Mines and Minerals Industry	● Industries producing petroleum products, natural gas and fuel.

Wildlife reserves, tiered hotels, eco-tourism resorts, water travel (cruise) and water sports have additionally been designated as industries of national priority under the amended IEA.

Important Note: FDI in BFIs and insurance companies does not fall under the above-mentioned regime and is instead governed by the laws of the central bank and the Nepal Insurance Authority respectively.

2.2 Investment Threshold

A foreign investor is required to invest a minimum of NPR 20 million in the proposed business. If foreign investment is made in an Information Technology business through the Automatic Route, the minimum threshold does not apply.

2.3 Forms of Foreign Investment

Form of Foreign Investment	How Foreign Investment Can Be Done
Equity Investment	Formation of a new company or subscribing/purchasing shares of an existing company. Or, **via purchase of units of a capital investment fund (venture capital fund) or Specialized Investment Fund registered with the Securities Board of Nepal (SEBON), including through a fund manager, with prior approval from SEBON.**
Asset Purchase	Purchasing the assets of existing companies.
Lease Financing	Lease of ships, aircraft, machinery & equipment, construction equipment, or other similar equipment.
Technology Transfer	By- (i) transferring patent, design, trademark, goodwill, user's license, formulas and processes, franchising (ii) sharing technical know-how (iii) **providing management and technical service, IT, marketing, financial, accounting, engineering, outsourcing, digital data-processing and design services.** (iv) reverse engineering

Form of Foreign Investment	How Foreign Investment Can Be Done
Loan Investment	Foreign financial institutions can provide project loans/project financing upon (i) concluding a loan/finance agreement and (ii) obtaining NRB approval. **Previously, only industries that already had foreign investment could obtain project loans/financing from foreign financial institutions. Any industry may now do so (subject to NRB approval), except industries listed in the Negative List (Schedule), which remain barred from such loans/financing.**
Branch Industry	Establishment or expansion of a branch industry in Nepal by a foreign industry.

2.4 Approving Authorities

Nepal's FDI system includes both permission-based and automated approval mechanisms.

Except for industries eligible under the Automatic Route, foreign investment in Nepal requires prior approval from the Department of Industries. According to the FITTA amendment made by the Ordinance for Amending Some Acts of Nepal for Investment Facilitation dated 28 April 2024 (the "Ordinance"), the DOI is the exclusive Foreign Investment Approving Body. However, the Public Private Partnership and Investment Act 2019 (the "PPPIA") mandates that the Investment Board Nepal (IBN) approve investment in projects costing NPR 6 billion or more **in case of projects falling under the jurisdiction of** PPPIA. Similarly, the IBN has the authority to implement and approve investments in hydropower projects with capacities more than 200MW. Hence, despite the Ordinance, the IBN still has the authority to approve certain investments irrespective of the investment being foreign or domestic (Investment Board Nepal, 2021).

To clarify, the DOI approves foreign investment under the FITTA system, while the IBN will approve investment under the PPPIA system.

<table>
<tr><th>Investment</th><th>Approval from</th><th>Notification to</th></tr>
<tr><td>Investment under the FITTA system</td><td>DOI</td><td rowspan="2">NRB</td></tr>
<tr><td>Investment in projects costing NPR 6 billion or above under the PPPIA system</td><td>IBN</td></tr>
</table>

Investment	Approval from	Notification to
Investment in hydropower project over 200 MW	IBN	
Investment in hydropower project below 200 MW	DOI	

Foreign investment or technology transfer in an industry registered in a Province now requires only that industry's registration certificate; the earlier requirement to also obtain a recommendation from the concerned Provincial ministry has been removed.

Investments made by Non-Resident Nepalis (NRNs) under Sections 7 or 8 of the Non-Resident Nepali Act, 2064, or by companies/firms/investment funds in which NRNs hold over 50% shareholding, must now be notified to the DOI, which will then grant investment approval.

A person or entity holding FITTA Section 17 approval who wishes to transfer their foreign investment, in full or in part, free of charge, must now apply to the DOI, which may grant approval subject to payment of applicable taxes.

Prior to the implementation of NRB Bylaws, foreign investors were required to get two FDI approvals:

- Approval from DOI or IBN to invest,
- Approval from NRB to bring in foreign currency in Nepal.

The NRB Bylaws have now removed the necessity for NRB approval in certain instances, allowing foreign investors to invest in Nepal upon obtaining DOI/IBN approval, with no NRB approval essential. This is a conditional waiver, and NRB approval is necessary for investment via share purchase.

NRB approval will not be required in the following instances; instead, notification can be given to the NRB before bringing FDI into Nepal:

- If the shares subscription does not alter the shareholding ratio of existing Nepalese shareholders of an established company.
- If foreign investment is made in a company listed in the stock exchange.
- Sick industry determined by Industrial Enterprises Act 2020

Form of FDI		DOI/IBN Approval	NRB Approval
Equity Investment	Incorporation of a new company	Yes	No

Form of FDI		DOI/IBN Approval	NRB Approval
	Subscribing shares - shareholding ratio unchanged	Yes	No
	Subscribing shares - shareholding ratio changes	Yes	Yes
	Purchasing shares of an existing company	Yes	Yes
Asset Purchase		Yes	No
Lease Financing		Yes	No
Technology Transfer		Yes	No
Loan Investment		No	Yes
Branch Industry		Yes	No

2.5 Automatic Route

The Automatic Route is now fully operational. It was launched at the third Nepal Investment Summit (28-29 April 2024). Investors can apply online at the DOI's portal. Investors can submit company/investment details and required documents online; the system grants approval automatically once criteria are met, and approval certificates are issued by e-mail immediately or within 7 working days. After receiving approval, the investor must still verify the source of foreign currency with the NRB.

The investment ceiling of NPR 500 Million for the Automatic Route has been removed. The original Gazette Notification of 2 October 2023 had capped Automatic Route investment at NPR 500 million. A new gazette notification effective February 2026 has repealed that ceiling: foreign investment of any amount can now be approved through the Automatic Route in specified sectors. The Automatic Route now covers 102 business sub-sectors across 7 broad industrial categories: energy production; agriculture and forest products; infrastructure; tourism; information technology; services; and manufacturing. There remains no minimum investment threshold for the IT sector under the Automatic Route.

Investment through Automatic route is applicable for foreign investment made through:

(i) incorporation of a new company as a 100% subsidiary or as a joint venture; OR

(ii) capital increment by foreign investor in an existing company with foreign investment.

Illustrative Automatic Route sectors include, among others:

1. **Energy-based Industry** - machines/equipment generating energy from air, solar, biomass; biogas energy; sugar-industry by-product energy; energy potential studies.
2. **Agriculture and Forest Products** - fruit/vegetable processing; greenhouses; silk, tea/coffee, herb processing.
3. **Infrastructure** - vehicle parking; export processing zones; wastewater treatment plants; film city/studio; warehouses.
4. **Tourism** - motels/hotels/resorts/bars/restaurants; fun parks, water parks; conference and sports tourism.
5. **Information Technology** - technology/IT/biotech parks; software development; data processing; digital mapping; BPO/KPO; data centres; web design.
6. **Service-oriented** - mechanical workshops; construction; hospitals, clinics, rehabilitation homes; sports services, swimming pools.
7. **Manufacturing** - livestock/fishery feed and processing; oils, starch, glucose; bakery, confectionery, non-alcoholic beverages.

The Nepal Gazette listing the industries permitted to operate under the Automatic Route is available through this link.

2.6 Investment Timeline

FITTA Regulation sets the investment timeline on two bases:

(i) Foreign Investment approval date, and

(ii) commercial operation date of the business.

FDI Amount	% of Capital Injection (within 1 year of Foreign Investment approval)
Up to NPR 20 Million (approx. USD 130,000)	25%
NPR 20 Million to NPR 250 Million (approx. USD 130,000 - 1.635 Million)	15%
NPR 250 Million to NPR 1 Billion (approx. USD 1.635 - 6.54 Million)	10%

FDI Amount	% of Capital Injection (within 1 year of Foreign Investment approval)
Above NPR 1 Billion (approx. USD 6.54 Million)	5%

Regardless of the above, the FITTA Regulation requires investors to contribute 70% of the total FDI amount before the investee company's commercial operation date, and the remaining 30% within two years afterward.

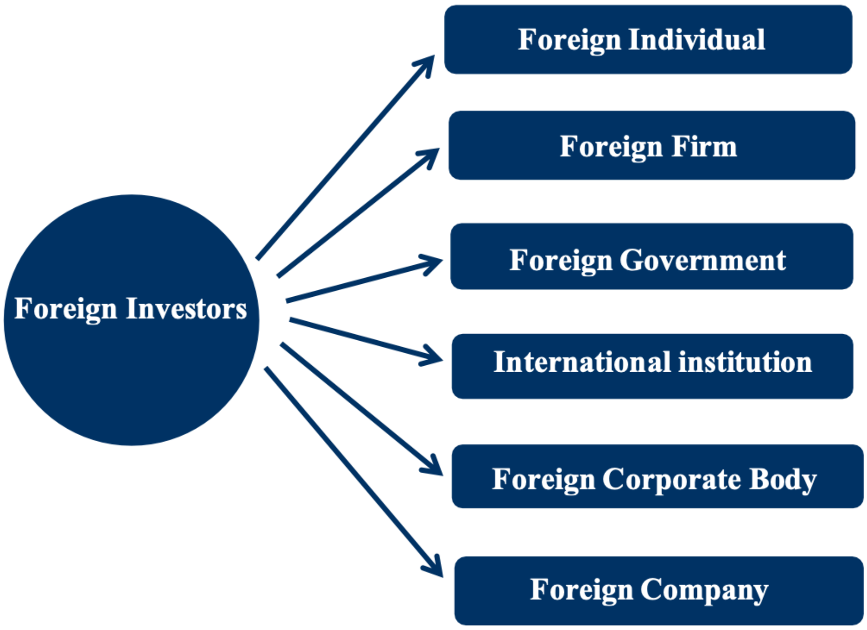
For foreign investment through the purchase of existing company shares, the entire investment must be brought into Nepal within one year of approval.

2.7 Sector Specific Investment Cap of FDI Amount

Sector	FDI Cap
BFIs	Minimum 20% and Maximum 85%
Telecommunication	80%
Broadcast	25%
Aviation	
International Airlines	80%
Domestic Airlines	49%
Aviation training institutions	95%
Aircraft maintenance & repair institutions	95%
Insurance Companies	80% of paid-up capital
Consultancy Business	51%
Ride Sharing Business	70%
Payment Service Providers / Operators	15% of paid-up capital

2.8 Foreign Investor

FITTA recognizes the following persons and entities as foreign investors eligible to invest in Nepal:



Non-Resident Nepalis (and NRN-majority entities) are now a distinct, expressly regulated category of investor requiring DOI notification and approval (see Section 2.4).

3. Commencement of Foreign Investment

3.1 Setting up a Foreign Investment Company

Step	Stepwise Process	Regulatory Authority	Tentative Timeline
1	FDI approval (Manual Route), **or FDI through Automatic Route**	DOI or IBN / DOI	20 days / **Immediate-7 days**
2	Company registration	OCR	7 days
3	Tax registration	IRD	1 day
4	Investment in hydropower project below 200 MW	Concerned ward office	1 day
5	Industry registration	DOI	15 days
6	Opening local bank account for bringing in FDI amount	Any Nepalese BFI of choice	2 days
7	Prior notification for bringing in FDI amount	NRB	1 day
8	Certification of Shareholders Register	OCR	10 days

Step	Stepwise Process	Regulatory Authority	Tentative Timeline
9	Recording of FDI amount after investment	NRB	15 days

3.2 Foreign Investment in an Existing Company via Share Subscription or Share Purchase

Step	Stepwise Process	Regulatory Authority	Tentative Timeline
1	FDI approval	DOI or IBN	20 days
2	NRB Approval (for share purchase and share subscription that changes existing shareholding ratio)	NRB	7 days
3	Prior notification for bringing in FDI amount (unchanged shareholding ratio; listed company; sick industry)	NRB	1 day
4	Recording of completion of shares purchase or subscription	OCR	1 day
5	Recording of FDI amount after investment	NRB	15 days

Where the transaction involves transferring the amount of an already-approved foreign investment to another person or entity, prior DOI approval is now required for that transfer (see Section 2.4).

Note: an in-principle approval of the concerned regulatory authority may also be required in addition to FDI approval for investment in sector-specific industries. For example, approval from Nepal Telecommunications Authority will be required for investment in the telecommunication sector.

4. Taxation

4.1 Tax System of Nepal

A major source of revenue for the Government of Nepal is Taxes. Taxes are levied on all sources of income, whether received or accrued. Taxes in Nepal are classified in two types; Direct and Indirect Taxes. Direct Taxes are those paid directly by individuals or entities to the government and include Income Tax, Local Tax, Wealth Tax and so on. Indirect Taxes are not paid directly by the consumer, but rather levied on goods and services. These include VAT, Custom Duty, Excise Duty and so on. As per the **Income Tax Act of Nepal, (ITA)**, taxes are levied on income from employment, businesses, investments and windfall gains.

All individuals or entities with taxable income are required to register themselves with the Inland Revenue Department, obtain a Permanent Account Number (PAN) and file an Income Tax Return annually. The parties are required to follow a uniform income year, that corresponds to the Nepalese Fiscal Year. All tax payers must submit their tax return within three months from the year end. If there is any inconsistency in the income tax return submitted, the return can be amended within 30 days from the date of filing.

4.2 Corporate Income Tax

In Nepal, the standard corporate tax rate is **25%** for businesses and corporations. However, there are other corporate tax rates that are applicable for various other industries.

A tax rate of **20%**, also known as Concessional Corporate Tax is applicable when:

- ✔ Income is earned from operations or manufacturing activities, excluding the production of tobacco and alcohol.
- ✔ Income is earned from projects conducted to build public infrastructure or in the power generation, transmission and distribution sector.
- ✔ Income earned from agriculture, forestry and mining industries.

A tax rate of 30%, also known as High-Rate Corporate Tax is applicable when:

- ✔ Income is earned from Banks and Financial Institutions
- ✔ Income is earned from manufacturing Alcohol, Tobacco, Cigar etc.
- ✔ Income is earned by companies engaged in petroleum business.
- ✔ Income is earned from Telecom and Internet Services.
- ✔ Income is earned by companies engaged in money transfers, capital market business, securities business, merchant banking etc.

4.2.1 Personal Income Tax

For FY 2083/84, the Federal Budget presented on 15 Jestha 2083 introduced a single, unified income tax slab table that applies to all resident individuals; the previous separate schedules for single individuals and married couples have been merged into one table. The slab rate is as below:

Taxable Income	Tax Rate
Up to NPR 1,000,000	**1%**
NPR 1,000,001 to NPR 1,500,000	**10%**
NPR 1,500,001 to NPR 2,500,000	**20%**
NPR 2,500,001 to NPR 4,000,000	**27%**
Above NPR 4,000,000	**29%**

4.3 Non-Resident Income Tax

Non-Residents are taxed at a rate of 25% on remuneration earned from Nepal (subject to specific exemptions). Income from transporting passengers, mail or cargo by sea or air embarking in Nepal, treated as an online service, is taxed at 5%. Income from offline services that do not originate in Nepal is taxed at 2%.

4.4 Withholding Taxes

Under Chapter 17 (Sections 87 to 93) of the ITA, the taxpayer is required to withhold taxes or deduct TDS, on certain specified payments at the prescribed rate. If the taxpayer fails to withhold taxes, it will be subjected to penalties, including interest.

Depending on the nature of income, Foreign Investors are required to pay TDS at certain rates. 5% TDS is levied for Dividend Income, 15% TDS is levied for Royalty, Copyright, Patent and Trademark, Service Management and Interest.

4.5 Capital Gain Taxes

A 25% tax is levied in form of Capital Gain Tax when shares owned by a foreign investor in a Nepalese entity is sold, irrespective to whether a foreigner or local person. In case of unlisted shares, the Nepalese entity has a liability to withhold and pay the capital gain tax on behalf of the foreign investor. However, in case of listed shares, there is no such liability.

4.6 Double Taxation Avoidance Agreement (DTAA)

Nepal has concluded tax treaties, known as the Double Taxation Avoidance Agreements (DTAAs) with 11 countries. They are Austria, Bangladesh, China, India, South Korea, Mauritius, Norway, Pakistan, Qatar, Sri Lanka and Thailand. **However, the DTAA with Mauritius has been terminated effective from 17th July 2026.**

Nepal's remaining in-force DTAAs are with: Austria, Bangladesh, China, India, South Korea, Norway, Pakistan, Qatar, Sri Lanka and Thailand. As long as Nepal has the DTAA with these countries, the ITA provides relief against double taxation. The purpose of this agreement is to avoid international double taxation on the same income by granting foreign tax credits and also to prevent tax avoidance.

Nepal is in active negotiations for new DTAAs with the United Kingdom, Malaysia, Singapore, Oman and Japan.

The DTAA specifies the applicable tax rates for various income heads in Nepal.

Income Heads	Applicable Rate	Applicable Jurisdiction
Profits of Enterprise	Generally 25%	Country of incorporation or where the permanent establishment is located.
Interest	Ranges from 10% to 15%	Both the Jurisdictions
Royalties	15%	Both the Jurisdictions
Capital Gains	25%	Country where the company whose shares are being transferred is a resident.
	Dividends	
Austria, Norway, South Korea	**5%: if the beneficial owner is a company holding at least 25% of the shares;** **10%: if the beneficial owner is a company holding at least 10% of the shares;** **15%: in all other cases.**	
India	**5%: if the beneficial owner is a company holding at least 10% of the shares;** **10%: in all other cases.**	

Income Heads	Applicable Rate	Applicable Jurisdiction
Bangladesh, Pakistan, Thailand	**10%: if the beneficial owner is a company holding at least 10% of the capital/shares;** **15%: in all other cases.**	Both the Jurisdictions
China, Qatar	**10% maximum of the gross amount of the dividends.**	
Sri Lanka	**15% maximum of the gross amount of the dividends.**	

4.7 Value Added Tax

Value Added Tax (VAT) is an indirect tax in Nepal, governed by the Value Added Tax Act, 1996 and Regulation, 1997. This tax is imposed on various levels of value addition in the production and distribution process of goods and services. VAT is applicable to Supply of goods or services within Nepal, Import of goods and services inside Nepal and Export of goods and services outside Nepal. In Nepal, the standard rate of VAT is 13%, except for those items specified in Schedule 1 and 2 of the Act and **goods or services for which a different rate is prescribed by the Government under the amended provisions of the Finance Act 2083. The Finance Act 2083 has introduced a 5% VAT rate for specified services, including electricity supplied to consumers and specified ride-sharing services.**

Any business registered for VAT must pay VAT when buying goods or services from suppliers and must charge VAT when selling the goods or services to its customers. If the collected VAT is more than what has been paid, the difference amount is paid to the Government. If the paid VAT is more than what has been collected, the business can claim a VAT refund from the Government. To prevent double taxation, a credit is given for VAT paid on goods and services used for the purpose of making any taxable supply. The tax credit system ensures that businesses are taxed only when they add value to the goods or services, not on the entire value of the goods or services at each stage of production or distribution.

4.8 Import Duties

Custom Duty

Calculated at the Nepal border on the transaction value (Cost, Insurance and Freight). The Finance Act revises rates annually; Customs duty rates vary according to the type and classification of imported goods and generally range from 1% to 80%.

Excise Duty

Governed and Regulated by the Excise Act 2002 and the Excise Regulation 2003, Excise Duty is payable on local manufacture of movable goods and import of applicable goods. One must obtain a license to manufacture, import, sell or store excisable goods or deliver a related service. Every registered person must file an excise duty return by the 25th day of the following month, even for the month where transactions have not occurred.

Local Taxes

These taxes are governed by the municipalities. The central government has divided the area of tax collection into municipalities and rural municipalities. However, the Central Government is responsible for the collection of Income Taxes. Each municipality and rural municipalities set their own percentage of local taxes, which includes business taxes, rental taxes, local business registration fees and the procedures for collection of the same.

5. Protection of Investments and Investors

5.1 Bilateral Investment Treaties

Bilateral Investment Treaties (BITs) are international agreements that establish the terms and conditions for private investment by nationals and companies of one country to another country. Nepal has entered BIT with four countries as of now. They are France (in 1985), Germany (in 1988), the United Kingdom (in 1993) and Finland (in 2011). Nepal has also entered BIT with Mauritius (signed in 1999) and India (signed in 2011), which are yet to be acted upon.

BITs include protection for Investments and Investors as follows:

- ✔ National Treatment: Foreign investors are entitled to be treated equal to local investors or investors of any other third state.
- ✔ Fair and equitable Treatment: BITs protect against unfair legal or administrative processes, discrimination, and abusive treatment. It also protects against the government taking over the investor’s property without proper compensation.

- ✔ Compensation for Losses: Investors must be compensated for losses on investment caused by war, riots, national emergencies, or armed conflicts.
- ✔ Subrogation: When a government pays an investor for their losses due to non-commercial risks (like political instability), that government can claim compensation from the other contracting party (other government) involved.
- ✔ Repatriation of Investment and Returns: Investors can move their capital and profits, such as dividends and interest, proceeds from the sale of shares back to their home country.
- ✔ Dispute Settlement Mechanisms of Investors: BITs provide ways to resolve disputes between the state and investors, and between different states. It allows foreign company personnel to enter and work in the host country.

5.2 Protection to Investors under FITTA 2019

VISA Benefit

1. Foreigners are granted a non-tourist visa for up to 6 months if they are visiting Nepal for study, research, or surveys related to foreign investment.
2. Foreign Investors and their families can get business visas.
3. Two representatives of large foreign investments, with minimum 25% of total investment amounting to USD 1 million or more, and their families can get business visas.
4. Foreign experts, technical and managerial employees working in a foreign investment company **and their families** can get non-tourist visas.

Other Protections

a. **Change in Law protection:** Foreign Investors are guaranteed with Change in Law Protection, where the laws governing their investments, as when the investments were approved, will remain unchanged unless agreed upon. Any changes must not harm their rights and investments.

b. **Protection against Nationalization:** Foreign Investors are protected against nationalization of companies they have invested in. Foreign investments are protected from being taken over by the government, except for public purposes.

c. **Repatriation of Investment and Returns:** Investors can transfer their profits and capital back to their home country in convertible foreign currency.

d. **Land:** Authorities such as the Department of Industries (DOI) or Investment Board Nepal (IBN) will help foreign investors acquire land needed for operating their business smoothly if they cannot do so on their own.

e. **Authorization:** As set clear by FITTA 2019, Foreign investors can authorize someone to act on their behalf in Nepal.

f. **National Treatment:** Foreign investments will be treated the same as local investments, till the time such investments remain in Nepal. Exceptions include:

1. Intellectual property under international agreements.
2. Benefits for local industries.
3. Government subsidies.
4. Non-commercial services provided by the government.
5. Financial services for foreign investors.
6. Special treatment under regional or international agreements.
7. Regulatory authority conditions for loans, payments, and services outside Nepal.
8. Protection of public health, plants and animals, and environment.

6. Repatriation of Investment and Returns

6.1 Right of Repatriation

Upon obtaining approval and payment of applicable taxes, Foreign Investors are given the right to Repatriate their Investment and Returns. The Repatriation includes:

1. Profit or Dividend
2. Returns of Capital at the Time of Liquidation
3. Compensation or Indemnity
4. Scale Proceeds upon Share Transfer
5. Lease Rent under Lease Financing

Since foreign investment in units of a Specialized Investment Fund is now a recognised investment form, repatriation of:

(a) amounts from the sale of SIF units and

(b) profits earned from SIF units,

is now also expressly permitted, subject to SEBON approval and payment of applicable tax liabilities.

6.2 Regulatory Approvals

Any foreign investor must generally obtain approval from DOI, IBN and/or NRB to repatriate investment and returns.

Approvals	DOI	IBN	NRB
For approved foreign investment under FITTA	Required	Not Required	Required
For approved investment under PPPIA	Not Required	Required	Required

Once the process under Section 20 of FITTA is completed, the Recommendation of the foreign-investment approving body and NRB approval are no longer required for repatriating foreign investment.

For repatriation of investment amount or earnings from such amount, the approval timeline has been reduced from 15 days to 7 days, and the timeline for the Ministry of Industry, Commerce and Supplies to decide an appeal against the approving body's repatriation decision has been reduced from 30 working days to 15 working days.

After obtaining these regulatory approvals, the investors can repatriate the amount at the prevailing exchange either in the same foreign currency which the foreign investor had brought in, or in a different foreign currency as approved by the NRB.

NRB sets out a condition at the time of granting approval of repatriation that Foreign Investors are not allowed to repatriate their investment amount during the first year of their investment.

6.3 Payment of Taxes

Foreign investors are permitted to repatriate their investment amount after payment of certain amount as applicable taxes:

Income Head	Applicable Tax Rate
Return of Capital	N/A
Dividends	5%
Share Sale Proceeds	5%
Aircraft Lease	10%
Royalties	15%
Service Fees	15%

6.4 Ceiling on Royalty Repatriation

FITTA regulation has prescribed Ceiling on Royalty Repatriation for two kinds of categories.

Ceiling for all types of technology transfer (except Trademarks)

Royalty basis	For Local Sales	For Export Sales
Total sales amount	Up to 5% of total sales (excl. VAT)	Up to 10% of total sales (excl. VAT)
Net profits	Up to 15% of net profits	Up to 20% of net profits

Ceiling for use of Trademarks

Industry	For Local Sales	For Export Sales
Alcohol and Tobacco Industry	Up to 2% of total sales (excl. VAT)	Up to 5% of total sales (excl. VAT)
Other Industries	Up to 3% of total sales (excl. VAT)	Up to 6% of total sales (excl. VAT)

7. Dispute Settlement Mechanism

7.1 Dispute Settlement via Arbitration

The Foreign Investment and Technology Transfer Act (FITTA) allows the parties to designate the governing law and dispute resolution mechanism for foreign investment agreements. This applies to various types of agreements, such as loan, share purchases, franchises, joint ventures, and technology transfer agreements. The laws of England and Wales are often opted as governing law due to their established legal system and global commerce reliability. Dispute resolution is often done through arbitration under United Nations Commission on International Trade Law (UNCITRAL), International Chamber of Commerce (ICC), London Court of International Arbitration (LCIA), China International Economic and Trade Arbitration Commission (CIETAC), and Hong Kong International Arbitration Centre (HKIAC) rules. Singapore is increasingly opting for arbitration under Singapore International Arbitration Center (SIAC) rules due to its robust legal infrastructure, efficient arbitration framework, and enforceability of arbitral awards under the New York Convention.

7.2 Dispute Settlement Provision

When Investment Agreement or transaction documents are silent on dispute settlement mechanism, FITTA provides for the following default statutory provisions.

Rules/ Laws	Provisions
Governing Laws	Laws of Nepal
Seat of Arbitration	Kathmandu, Nepal
Arbitration Rules	UNCITRAL Rules of Arbitration
Substantive Law	Laws of Nepal

Before starting an arbitration, one must first try for an amicable settlement through the Department of Industries (DOI). This process must be completed within 45 days.

7.3 Enforcement of Domestic Arbitral Award

The parties have 45 days to enforce the arbitral award from the date of receipt. If the concerned party fails to enforce the arbitral award, the other party can file an appeal for enforcement at the concerned District Court. This application must be filed within 30 days from the date of expiry of the initial 45 days period.

The arbitral award can be challenged in front of the high court within 35 days from the date of receiving the award. The grounds for challenging the Arbitral award are:

1. If any of the parties lack the legal capacity to enter into the dispute settlement agreement.
2. When the governing laws of the settlement are not clearly specified in the agreement.
3. When the arbitrator is not fully aware of the issues for making such an award.
4. If the arbitrator exceeds the powers granted to them under the arbitration agreement or under the Arbitration Act.

In the circumstances provided, the High Court has the authority to either disregard the award or pass an order for re-arbitration. The order of the High Court can be further challenged in the Supreme Court if the decision violates the rights of any party.

7.4 Recognition and Enforcement of Foreign Arbitral Award

A foreign arbitral award is recognized and enforced if it is issued by a country under the New York Convention and applies to commercial disputes in Nepal. As Nepal is a signatory to the Convention, it correspondingly recognizes and enforces arbitral awards from other member states, promoting international arbitration agreements' enforcement.

For its enforcement and recognition in Nepal, the foreign award should satisfy the following conditions:

1. Arbitrator appointments and awards should be made in accordance with agreement laws and procedure.
2. Awards must be made for commercial disputes in Nepal.
3. Parties are notified about arbitration proceedings.
4. Award rendered on matters are strictly entrusted to the arbitrator.
5. Award becomes final and binding according to arbitration country's laws.
6. Application for enforcement of arbitral award is filed within 90 days from award date.

An application must be submitted to the High Court within 90 days from the date of award for the enforcement. If the above conditions are met, the High Court forwards the award to the concerned district court for enforcement.

The foreign arbitral award is non-enforceable if it is against the public policy of Nepal.

7.5 Recognition and Enforcement of Foreign Judgments

Enforcement of Foreign Judgement in Nepal is governed by Mutual Legal Assistance Act, 2070 (2014); which is considered as the principal legislation. It specifies that a bilateral treaty must be in effect before such enforcement may take place. Nepal has not yet signed such a treaty that would allow foreign judgment to be enforced.

8. Visa Recommendations

Foreign visitors other than Indian nationals need valid passports to enter Nepal (Department of Industry, 2021). Indian nationals need valid passports/travel document if the entry point is airport. There is a provision of seven categories of visa in the Immigration Act 2049 and Immigration Regulation 2051. These are:

8.1 Non-Tourist Visa for Feasibility Study

Foreign Visitors, wishing to undertake research and study with a purpose of investing in Nepal, may be granted a non-tourist visa by the Department of Immigration for a maximum period of 6 months on recommendation of the DOI.

For obtaining this visa, the prospective investor should apply to DOI in the prescribed format along with the following documents:

i. Bio-Data of the applicant

ii.Photo copy of the passport with the last visa

iii.Brief description of the project in which research and study will be undertaken.

iv.Photocopy of the citizenship certificate of the Nepalese investor, if the proposed industry is going to be established as a joint venture.

For obtaining this visa, the prospective investor should apply to DOI in the prescribed format along with the following documents:

i.Passport size photograph, 6 nos

ii.Recommendation letter from DOI

iii.Bio-Data of the applicant

iv.Photo copy of the passport with the last visa.

8.2 Non-Tourist Visa for Expatriates

If required skilled manpower is not available locally, industry can employ foreign nationals by obtaining a work permit. Such expatriate personnel **along with their family members** working in the industries will be granted a non-tourist visa for a duration of one year at a time on recommendation of DOI and Department of Labour. The work permit for such persons can be provided for up to a period of 5 years on annual renewal basis.

For obtaining this visa, the prospective investor should apply to DOI in the prescribed format along with the following documents:

i.Copy of the Agreement between the industry and expatriate

ii.Progress report of the industry

iii.Bio-Data of the expatriate personnel (mainly describing the experience in the related industry) and academic certificates

iv.Photo copy of the passport with last visa

v.Name list of Nepalese workers who will be trained from the expatriate

vi.Industry registration certificate

vii.Copy of vacancy announcement advertised in national daily

8.3 Business Visa

Foreign investors and/or his/her authorised representative and their dependents will be granted a business visa for up to a period of five years at a time on recommendation of DOI. The criteria of visa-period recommendation will be as set by the DOI. Various parameters such as investment level, financial performance, employment generation, income tax paid, area of investment etc. will be analysed prior to recommending the visa.

For obtaining this visa, the prospective investor should apply to DOI in the prescribed format along with the following documents:

i.Photo copy of the passport with last visa

ii.Proof showing investment made in the company.

iii.Industry registration certificate

iv.Progress report of the industry including the current status

v.Certificate of relationship with the dependents.

vi.In case of an authorized representative, a letter authorizing representation for the foreign investor and the photocopy of passport.

vii.Contact address and telephone number of the investor.

8.4 Residential Visa

Foreign investors making an investment equivalent to more than US $ one hundred thousand, at one time and in convertible foreign currency, will be granted a residential visa on recommendation of DOI. This visa can be granted for one year at a time.

Once the recommendation letter is obtained from DOI, the investor or the authorized representative may apply to the Department of Immigration in the prescribed format along the with the following documents:

i.Passport size photograph, 6 nos

ii.Recommendation letter from DOI

iii.Certificate of Incorporation

iv.Copy of the temporary/permanent account number (PAN)

v.Copy of the share certificate (in case of equity investment) vi.Copy of the passport with last visa

vii.Industry registration certificate

viii.Bio-Data of the passport holder

However, for the visa extension the following documents are to be submitted to the Department of Immigration:

i.Passport size photograph, 3 nos

ii.Recommendation letter from DOI

iii.Copy of the tax clearance certificate

iv.Copy of the passport with last visa

v.Bio-Data of the passport holder

9. Legal Framework for E-Business

Any E-Commerce business must follow the enlisted Civil and Commercial Regulations:

1. Income Tax Act, 2002
2. Companies Act, 2006
3. Money Laundering and Prevention Act, 2008
4. Foreign Investment and Technology Transfer Act, 2019
5. Industrial Enterprises Act, 2020

E-commerce companies should not be engaged in manufacturing or production activities unless they obtain prior approval from the Department of Industry and Commerce for the same (PKF International Limited). An E-Commerce company can be registered with the Department of Industry or the Department of Commerce if the following conditions are met:

9.1. Department of Commerce:

1. The nature of the business is trading.
2. The company imports and exports goods and has direct sales.
3. The business is operated by promoting trade through E-Commerce platforms.

9.2. Department of Industry:

- ✔ It is mentioned in the company's Memorandum of Association.
- ✔ The company is involved in imports and exports.
- ✔ The company sells customized goods and is involved in packaging.

FAQ

1. *Which areas are not opened for foreign investment?*

➢ Most industries are open for foreign investment. Only the industries listed in the Negative List (Section 2.1) are restricted.

2. *What constitutes trading activities?*

➢ Trading includes buying and selling of goods. A foreign person or entity cannot simply import finished goods from a foreign country and sell them in Nepal. Prevailing market practice shows two types of trading - wholesale trading and retail trading.

3. *Is 100% foreign investment permissible in Nepal?*

➢ Generally, foreign investors can have full ownership in the business they are investing in, for example – hydropower companies, tech companies, cement industries etc. However, 100% foreign investment is not allowed in certain sectors such as BFIs, insurance, and telecommunication companies. Please refer to Section 2.7 for more details on ownership percentage in these sectors.

4. *Is there a minimum threshold of ownership percentage by foreign investor?*

➢ Except for certain sectors such as BFIs, insurance, and telecommunication companies, there is no minimum percentage requirement for foreign investors to own a company in Nepal.

However, foreign investors are required to invest a minimum amount of NPR 20 million regardless of their ownership percentage in the company they are investing in. However, there is no minimum threshold for IT industries under the Automatic Route..

5. *Can a foreign national be appointed as a director of the Nepalese company where they have invested?*

➢ Yes. There is no restriction as such for a foreign national to become a director of a Nepalese company. Furthermore, there is no limitation on the number of directors having foreign nationality. The entire board of directors can comprise of foreign nationals.

6. Is there a preferred jurisdiction to invest in Nepal?

- **Investors often route investment from BIT/DTAA-partner countries to access treaty protections. Nepal has BITs with France, Germany, the UK and Finland (in force), and India and Mauritius (signed, not yet in force). Nepal's in-force DTAA network covers Austria, Bangladesh, China, India, South Korea, Norway, Pakistan, Qatar, Sri Lanka and Thailand - the Mauritius DTAA has been terminated with effect from 17 July 2026 and Mauritius should no longer be assumed to offer DTAA-based treaty benefits.**

7. Is there a provision of an automatic route in Nepal?

- **Yes. The Automatic Route, provisioned by the DOI under FITTA and its regulations, is now fully operational via DOI's IMIS, with no upper ceiling for investment, covering 102 sub-sectors across 7 industrial categories.**

8. Are regulatory approvals required for repatriating investment amount?

- **Yes. Generally, approval from the Department of Industry under Section 20 of FITTA and the applicable foreign-exchange approval/facility from Nepal Rastra Bank are required for repatriation of foreign investment and earnings.**

9. How long does it take to obtain repatriation approval?

- Statutory timelines require DOI and NRB to decide within 7 days of application **(reduced from 15 days)**; timelines may extend in practice.

10. When are the approvals from DOI and IBN required?

- **Following the Act Relating to Improving Economic and Business Environment and Enhancing Investment, 2081 (2025), which formalised the earlier 2024 Ordinance, the DOI is the sole foreign investment approving body, while the IBN approves PPPIA-covered projects of NPR 6 billion or more, and hydropower projects over 200 MW.**

11. Why is it necessary to give details of indirect shareholders of a foreign investor?

- This is because ultimate beneficiaries of a foreign investor are also defined as foreign investor by FITTA. However, this is not required if the investor is a publicly listed company.

12. Up till which layer of indirect shareholding should the details be given?

- The laws do not specify till which layer of indirect shareholding should the information be given, but regulatory authorities require that the end beneficiary must be a government authority or a natural person. As long as corporate entities are found to be shareholders or indirect shareholders, details of their owners are required to be produced.

13. ***What are the documents to be submitted at NRB while notifying about foreign investment?***

- An application in the prescribed format is generally sufficient; no additional documents are required.

14. ***How long will it take to obtain FDI approval from DOI/IBN?***

- The statutory timeline for obtaining DOI/IBN approval is 15 days from the date of application. Practically, the said timeline may get lengthened. So, it is better to set a three months' timeline for completion of the approval process. **However, Automatic Route approvals are now typically immediate to 7 working days.**

15. ***Can FDI approval be cancelled?***

- The approved foreign investment may be cancelled by DOI/IBN if the foreign investor or the local company does not comply with - (i) the covenants specified in the FDI approval, and (ii) the applicable laws relating to operation of the company.

16. ***By when should the investment amount be brought into Nepal?***

- The timeline for bringing in the investment amount is outlined in Section 2.6. Such investment amounts should be brought in Nepal through a banking channel.

17. ***Can the timeline for bringing in the investment amount be extended?***

- Yes, regulatory authorities may extend the timeline on reasonable grounds.

18. ***Are foreign investors allowed to bring investment amounts prior to DOI/IBN approval?***

- Yes, foreign investors can bring up to 3% of the paid-up capital of the investee company as pre-operational or feasibility study expenses before obtaining FDI approval from DOI/IBN or NRB.

19. ***Does a foreign investor need DOI/IBN approval for additional investment in the same company?***

- Additional investment is not covered under the automatic route and hence, the foreign investor has to again obtain DOI/IBN approval to be obtained for investing in the same company in future.

20. Is it necessary that a foreign investor should mandatorily be a company?

- No. Foreign individuals, firms, governments, international organisations, development finance institutions, and **Non-Resident Nepalis and NRN-majority entities** may also invest as foreign investors.

21. How long does it take to obtain a visa recommendation from DOI?

- It takes at least a month to obtain a visa recommendation from DOI from the date of application. The Department of Immigration then grants the required visa on the same day of application.

22. Who is eligible to obtain a business visa?

- The foreign investor or authorized representative(s) of such investors and their family members will be granted business visas to reside in Nepal. Business visa is issued in the following manner:
  - For the foreign investor investing prescribed (sector-specific) minimum threshold, a business visa is granted to such investor or one authorized representative and their dependent family.
  - For the foreign investor investing NPR One Hundred Million (approx. USD 654,000) or above and 25% of such amount having been invested, business visa is granted to two persons among the investors and authorized representatives of the investors and their family members.

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Thank You!

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+977 9802348581/ +977 9802348582

corporate.kbc@gmail.com www.kbc.com.np

www.kbc.com.np

Kumaripati, Lalitpur

Kathmandu Business Consultants