

Improving Climate Resilience of Vulnerable Communities and Ecosystems in the Gandaki River Basin, Nepal

Annex 9: Regulation, Taxation and Insurance

Regulations

Ground delivery of the project results: For the implementation of the project there is no requirement for IUCN or the project partners to have a license. As the Ministry of Forests and Environment (MOFE) functions as an executing entity, it will be the lead the field implementation of the project. The MOFE has already given its consent and provided a letter mentioning that MOFE will steer the implementation committee of the project. The GoN has formed a coordination committee for the overall supervision of proposal development under the leadership of the Joint Secretary, Planning, Evaluation and Coordination Division (PECD) of the MOFE. After the approval of the proposal, the project will be implemented on the ground by Project Coordination Unit (PCU) of Provinces 3,4 and 5; National Trust for Nature Conservation (NTNC) and IUCN Nepal as implementation partners to deliver the results on the ground.

Operation of enterprise: The Industrial Enterprise Act, 2016 (IEA) requires that all industries shall be operated only upon registration with the Department of Industry. In case of minor or cottage industries, the registration must be within 6 months from the commencement of operation. Industries are classified in five categories: micro, cottage, small, medium and large as per the below criteria.

SN	Enterprise category	Criteria
1	Micro Industry	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - 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 NRS 100 million
4	Medium Industry	- Fixed asset between NRS 100 to 250 million
5	Large Industry	- Fixed asset of more than NRS 250 million

These industries have different requirements for registration. The proposed project aims to promote on- and off-farm microenterprises, and small and medium processing enterprises.

This project also aims to promote and work through cooperatives. Cooperative is governed by the Cooperative Act 1992. As per the act, a cooperative society (primary cooperative) can be formed by 25 natural persons having similar problem to be solved and objective to be achieved.

Applicable taxes

The following are the tax related salient features of the Industrial Enterprise Act 2016¹.

- 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

¹ Industrial Enterprise Act 2016. Government of Nepal, Ministry of Industry, Commerce and Supplies, Singh Durbar, Kathmandu

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.

- 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.
- 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.
- Government shall provide seed capital to cooperative, micro industry, cottage and small industry to establish industry in Remote areas.

Likewise, the tax regulations of Nepal² contain the following provisions on tax exemption:

- Income generated by primary agro-producers other than a firm, company or partnership engaged in agriculture within the land limit prescribed by the Land Act, 1965 is exempt from income tax. Similarly, income earned by agriculture cooperatives engaged in silk farming, fruit farming, fruit producing and refining, animal husbandry, dairy industries, poultry farming, bee keeping, fishery, tea, coffee, medicinal herbs farming and processing, vegetable seed producing, rubber farming, agro forestry, cold storage for vegetables, animal fodders, pesticides, fertilizers and agricultural tools is exempt from income tax and dividend tax.
- Industry based in agriculture and forest sector that provides direct employment to at least 100 Nepalese national during a whole year, the effective tax rate is 70 per cent of applicable tax rate.
- Exemption of dividend tax in case special industry, industry based in agriculture and tourism sector capitalizes its profit (issues bonus shares) for expansion of capacity of industry.
- 40 per cent tax exemption for fruit-based brandy, wine, cider-producing industries established in under developed areas specified by the government of Nepal.
- No value added tax is levied on primary and basic agricultural goods.
- VAT exemption facility for agro-based cold storages; 50 per cent VAT square off facility for mustard oil and Vegetable ghee producing industries, dairy industries and tea producing and refining industries; 90 per cent VAT square off facility for sugar producing industries
- There shall be an exemption of VAT in the premium paid for agriculture and livestock insurance
- 50 per cent interest subsidy on loans acquired for the purpose of carrying out commercial farming in 10 hectares of land in hilly regions and 20 ha of land in the Terai region; 75 per cent interest subsidy on loans extended by cooperatives operated by small and marginalized farmers.
- Any private company or cooperative borrowing to establish and operate cold storage and food storage facilities within the directives issued by the Ministry of Agriculture and

² Agriculture Sector Profile - Government of Nepal, Ministry of Industry 2017

Livestock Development shall be provided with the exemption of 100 per cent interest payment for a period up to five years.

Insurance policies related to the project

- Among several existing agricultural insurance policies such as Cattle Insurance Policy, Cardamom Insurance Policy, Coffee Insurance Policy, Fish Insurance Policy, Fruit Insurance Policy, Ginger Insurance Policy, Goat Insurance Policy, Honey Bee Insurance Policy, Sweet Orange Insurance Policy, Lemon Insurance Policy, Mushroom Insurance Policy, Mandarin Orange Insurance Policy, Paddy Insurance Policy, Potato Insurance Policy, Seed Insurance Policy, Vegetable Insurance Policy, etc. are relevant to this project.
- The Crops and livestock Insurance Directives, 2013 was introduced by the Insurance Board with the focus on crops (paddy, vegetables, potatoes, apples and banana among others), livestock and poultry, making it mandatory for all the non-life insurance companies to come up with insurance policies for these products.
- Depending upon the perceived risks, government is providing subsidy on insurance premium. The government has been extending a 75 per cent subsidy on insurance premium to farmers to insure crop, livestock and fowl since fiscal 2013/14.³ Other insurances are covered by the general insurance policies and are not subsidised by the government.
- Though the government has announced 75 per cent subsidy as agriculture insurance to farmers, only a handful have benefitted. Still farmers in large numbers belonging to remote areas are unaware of insurance policies. There is a lack of awareness about the government policies among farmers⁴.

³ Agro insurance Nepal - MoAD seeks additional NRS 60 Million for agriculture insurance scheme. 6 June 2016

⁴ The Himalayan Times April 05, 2018