



ROYAL GOVERNMENT OF BHUTAN  
MINISTRY OF FINANCE  
TASHICHHEO DZONG

Ref. No: DRC/TAX-A&L/HOL/2010/ 3656

2<sup>nd</sup> April, 2010

**NOTIFICATION**

**FISCAL INCENTIVES 2010**

The Ministry of Finance is pleased to announce the following incentives to stimulate private sector growth and employment generation.

The incentives shall comprise of three types: viz. *General Incentives*, *Specific Incentives* and *Sector-specific Incentives*. *General Incentives* are applicable to all sectors of the economy. Cross-sector incentives such as for Cottage and Small Industries (CSIs) are categorized under *Specific Incentives*, and those pertaining to specific sectors such as ICT, Tourism, Film and Media are categorized under *Sector-specific Incentives*.

The detailed Rules and Regulations for the tax incentives are attached herewith. With the announcement of these incentives, all previous incentives that may currently be in place shall be superseded. However, the specific and concessional rate pertaining to those products specified in the Royal Government's orders *Lhenzhung/CAD-03/08/1721 dated 27<sup>th</sup> June, 2008* and *DRC/C-TIS/TAP/02/07/1865 dated 15<sup>th</sup> Nov 2007* on imported industrial raw materials shall continue to be in force.

**I. Tax Incentives**

**1. General Tax Incentives**

- 1.1 Sales Tax (ST) and Customs Duty (CD) exemption shall be provided to manufacturing and service industries for import of plant and machinery.
- 1.2 ST exemption shall be provided for permissible raw materials and primary packaging materials used by all manufacturing industries.

107

Ministry of Finance

- 1.3 CD shall be exempted on import of permissible raw materials from third countries for industries that use their own convertible currency earned through the export of their own products or through the export of agro, forest and mineral products of Bhutanese-origin.
- 1.4 ST & CD exemption shall be provided on the financial institutions' procurement of software and hardware for credit/debit card or for electronic payment use.
- 1.5 ST & CD shall be exempted on electric cars/ hybrid cars including its spare parts, and cars that run on renewable energy.
- 1.6 Income tax on export earnings in convertible currency of business enterprises (other than tourism businesses) shall be exempted.
- 1.7 Reinvestments by companies shall be allowed as tax deductible expenses up to a maximum of 25 % of the total reinvestment.
- 1.8 Expenditure incurred for Research & Development (R&D) shall be allowed as tax deductible expenditure in whole.
- 1.9 Grant made by an entity for R & D shall be allowed as tax-deductible expenditure.
- 1.10 Business which has undertaken environmentally-friendly technological up-gradation beyond the minimum standard required by law shall be allowed an income tax rebate of 15 % of the up-gradation expenses.
- 1.11 The salary-ceiling for unincorporated businesses has been enhanced.
- 1.12 Existing businesses established on or after *1<sup>st</sup> July 2007* shall also be given the applicable tax holiday with effect from *1<sup>st</sup> January 2010* for the remaining period.

## **2 Specific Tax Incentives**

### **2.1 For Cottage and Small Industries (CSI) & Co-operatives**

- 2.1.1 A 10-year income tax holiday shall be provided to new CSI and Co-operatives outside and Thimphu and Phuentsholing city areas.



- 2.1.2 An additional 10-year tax holiday shall be provided to CSIs established in remote areas.
- 2.1.3 Income tax shall be exempted on interest income earned by financial institutions through lending to CSIs (including those provided under the entrepreneurship development programmes) and Cooperatives at preferential rates.
- 2.1.4 ST & CD shall be exempted on equipment and labour-saving devices purchased by individual artisans and craftsmen in the rural areas.

## **2.2 For Waste Management and Recycling Industry**

- 2.2.1 A 15-year income tax holiday shall be provided to waste management/ waste recycling entities.
- 2.2.2 ST & CD shall be exempted on the import of plant and machinery for waste management/recycling activities.

## **3. Sector-Specific Tax Incentives**

### **3.1 For Agriculture Sector**

- 3.1.1 An income tax holiday of 10 years shall be provided for commercial farming and related processing of its products. An additional 5-year tax holiday shall be provided for commercial farming of organic produces.
- 3.1.2 Exemption of ST & CD shall be provided on all farm machinery and other related agricultural inputs.

### **3.2 For Information and Communications Technology (ICT) Sector**

- 3.2.1 An income tax holiday of 15 years shall be provided to an IT park developer.
- 3.2.2 An income tax holiday of 10 years shall be provided to the IT/ IT Enabled Service (ITES) businesses operating within IT park.





- 3.2.3 An income tax holiday shall be provided for 5 years to IT/ IT Enabled Service businesses located outside IT park.
- 3.2.4 ST & CD shall be exempted on computers, related hardware and software.
- 3.2.5 ST & CD shall be exempted on imported construction materials forming direct inputs for IT park development.

**3.3. For Tourism Sector**

- 3.3.1. A 10-year income tax holiday shall be provided to newly-established high-end hotels.
- 3.3.2 A reinvestment allowance of 25 % of total capital expenditure incurred shall be provided for the up-gradation of the existing hotels.
- 3.3.3. The Income Tax Act will be reviewed to allow entertainment expenses up to 5 % of the assessed net profit.
- 3.3.4 ST & CD shall be exempted on import of buses by tour operators.
- 3.3.5 ST & CD shall be exempted on equipment for camping, trekking, rafting, kayaking, boating and such other equipment for 10 years.
- 3.3.6 ST shall not be applied based on rack rates of the hotels but on published or actual charged discounted room rents.
- 3.3.7 ST & CD on import of furniture & fixtures etc. for tourist-class hotels shall be exempted.
- 3.3.8 Farm houses used as hospitality units located in rural areas shall be exempted from income tax.
- 3.3.9 A 10-year income tax holiday shall be provided for lodges/guest houses registered with TCB as hospitality units.
- 3.3.10 Daily tourist tariff/royalty shall be waived for foreign participants in meetings, international conventions and exhibitions (MICE).





**3.4 For Film and Media Sector**

- 3.4.1 A 10-year income tax holiday shall be provided to entities producing animation films.
- 3.4.2 Income tax shall be exempted for 5 years on the income earned from production of films, documentaries and serials by local media firms for public broadcasting.
- 3.4.3 A 5-year income tax holiday shall be provided to the media service providers, viz., print media and broadcasting entities.
- 3.4.4 ST & CD shall be exempted on specific professional equipment required by entities in the media and the animation film industry.
- 3.4.5 ST on cinema tickets of Bhutanese films shall be reduced from 30 % to 10 %.
- 3.4.6 Filming royalty shall be waived off on the production of promotional and non-commercial audio-visuals, films or documentaries on Bhutan by foreign media organizations.

**3.5 For Construction Sector**

- 3.5.1 ST & CD shall be exempted on heavy machinery, earth-moving equipment, drilling equipment, tippers and dumpers imported by contractors and hiring companies.
- 3.5.2 ST & CD shall be exempted on green building materials.

**3.6 For Transport Sector**

- 3.6.1 ST & CD shall be exempted for buses used by passenger transport entities.
- 3.6.2 A 5-year income tax holiday shall be provided to taxi/ car-hire service companies.



### **3.7 For Education Sector**

- 3.7.1 Education and vocational institutes, established outside Thimphu and Phuentsholing cities, shall be provided with an income tax holiday of up to 15 years.
- 3.7.2 ST & C D shall be exempted on import of:
- i) school buses;
  - ii) foreign published text books, journals, periodicals, teaching aid materials, library books & materials;
  - iii) furniture & fixtures for classrooms and auditoriums;
  - iv) green building materials and special materials for construction of educational facilities.

### **3.8 For Health Sector**

- 3.8.1 A 5-year income tax holiday shall be provided to newly established pharmaceutical shops in the rural areas.
- 3.8.2 A 10-year income tax holiday for newly established high-end private health services shall be provided.

## **II Non-tax Incentives**

- 4.1 Companies, which earn convertible currency from the direct exports of their manufactured products, shall be permitted to use up to 100 % of the convertible currency earnings for the import of permissible raw materials.
- 4.2 Companies, which earn convertible currency from the export of other Bhutanese origin products, and not from the direct exports of their manufactured products, shall be permitted to use up to 80 % of the convertible currency earnings for the import of permissible raw materials.
- 4.3 Where the industry does not earn any convertible currency through the export of its goods, convertible currency for importing critical secondary raw materials from third countries that constitute less than 15 % of the value of



Ministry of Finance

direct inputs including electricity, shall be provided by the Government subject to the applicable ST and CD.

- 4.4 Private educational institutes earning convertible currency may retain 75 % of such receipts in a foreign exchange account to meet the convertible currency costs on expatriate faculty members and such other related costs.
- 4.5 Domestic preference of 5 % is accorded to the Royal Government's procurements.
- 4.6 A cash subsidy @ 50 % of the patent registration fees incurred by a firm/ institution/ individual for innovation/invention of a new product or process shall be provided.
- 4.7 Subsidies shall be provided for in-country training and for employing skilled Bhutanese beyond what is required by law as follows:
  - a. Stipends to the trainees in full, and
  - b. Up to 50 % of the training fees.

This notification shall come into immediate effect.



Wangdi Norbu  
**Finance Minister**

**Copy to**

- 1. All Ministries;
- 2. The Auditor General, Royal Audit Authority;
- 3. The Secretary, Lhengye Zhungtshog;
- 4. The Director, Department of Revenue & Customs;
- 5. The President, BCCI, Thimphu.



Table of Contents

<i>I</i>	<i>Tax Incentives</i> .....	6
1	<i>General Incentives</i> .....	6
1.1	Sales Tax (ST) & Customs Duty (CD) exemption Plant and Machinery (P&M). ....	6
1.1.1	Procedures for ST & CD exemption on P&M. ....	7
1.2 (a)	ST exemptions on import of permissible raw materials (RMs). ....	7
1.2(b)	ST exemption on primary packaging materials. ....	7
1.2.1	Procedures for applying for ST exemption on permissible RMs and packaging materials imported from India. ....	8
1.2.2	Procedure for applying ST & CD exemption on permissible RMs imported from third countries. ....	8
1.3	CD exemption on import of permissible RMs. ....	9
1.4	ST & CD exemption to financial institutions. ....	9
1.5	ST & CD exemption on electric cars/hybrid cars. ....	10
1.6	Tax exemption on convertible currency export earnings. ....	10
1.6.1	A 10-year income tax holiday on export earnings of new entities. ....	10
1.6.2	A 5-year income tax holiday on export earnings of the existing entities. ....	10
1.6.3	Conditions applicable to Sections 1.6.1 and 1.6.2 of these Rules. ....	10
1.7	Reinvestment Allowance (RA) of 25 %. ....	11
1.8	Deduction of Research & Development (R & D) expenditure ....	12
1.9	Grants for R & D. ....	12
1.10	Tax rebate for environmentally-friendly technologies ....	12
1.11	Enhancement of salary ceiling. ....	13
1.12	Tax holiday to existing businesses entities. ....	13
2	<i>Specific Incentives</i> . ....	14
2.1	Cottage and Small Industries (CSI) and Co-operatives ....	14
2.1.1	A 10-year income tax holiday for new CSIs and Co-operatives. ....	14
2.1.2	Additional 10-year income tax holiday to CSIs and Co-operatives located in the interior areas. ....	14
2.1.3	Income Tax waiver for financial institutions through lending at preferential rates to CSIs and Co-operatives. ....	14
2.1.4	ST & CD exemption for individual artisans and craftsmen. ....	15
2.2	For Waste Management and Recycling Industry. ....	15

## Ministry of Finance

2.2.1	A 15-year income tax holiday for waste management/recycling entities.....	15
2.2.2	ST & CD exemption for waste management/recycling activities.....	15
3.	<i>Sector-Specific Incentives</i> .....	15
3.1	Agriculture Sector.....	15
3.1.1	Income tax holiday of 10 years for commercial farming a.....	15
3.1.2	ST & CD exemptions on farm machinery, and agricultural inputs.....	16
3.2	Information and Communications Technology (ICT) Sector.....	16
3.2.1	A 15-year income tax holiday for the IT-park developer.....	16
3.2.2	A 10-year income tax holiday businesses operating within IT park.....	16
3.2.3	A 5-year income tax holiday to businesses located outside IT park.....	16
3.2.4	ST & CD exemptions on computers and related hardware and software.....	17
3.3	Tourism Sector.....	17
3.3.1	A 10-year income tax holiday to newly established high-end hotels/resorts... 17	
3.3.2	Reinvestment allowance of 25 % for the up-gradation.....	17
3.3.3	Entertainment expenses.....	17
3.3.4	ST & CD exemption on vehicles for tourism.....	18
3.3.5	ST & CD exemptions on equipment for adventure tourism.....	18
3.3.6	ST on published or actual charged (discounted) room rents.....	18
3.3.7	CD exemption on imports made by hotel industry.....	19
3.3.8	Income tax holiday for farm houses.....	19
3.3.9	A 10-year income tax holiday for lodges/guest houses.....	19
3.3.10	Waiver of daily tourist tariff/royalty MICE participants.....	19
3.4	Film and Media Sector.....	20
3.4.1	A 10-year income tax holiday for entities producing animation films.....	20
3.4.2	A 5-year income tax exemption for films, documentaries and serials.....	20
3.4.3	A 5-year income tax holiday to the media service providers.....	21
3.4.4	ST & CD exemption on specific professional equipment for the media.....	20
3.4.5	Reduction of ST on Bhutanese cinema tickets.....	21
3.4.6	Exemption from filming royalty for foreign media organizations.....	21



## Ministry of Finance

3.5	Construction Sector.....	21
3.5.1	ST & CD exemption on heavy machinery.....	21
3.5.2	ST & CD exemptions on green building materials.....	21
3.6	Transport Sector.....	22
3.6.1	ST & CD exemption for buses used by passenger transport entiti. ....	22
3.6.2	A 5-year income tax holiday for taxi /car hire service providers. ....	22
3.7	Education Sector .....	22
3.7.1	A 15-year tax holiday for educational and vocational institutes.....	22
3.7.2(a)	ST & CD exemptions on teaching materails .....	23
3.7.2(b)	ST & CD exemptions on buses for educational institutes.....	23
3.8	Health Sector.....	23
3.8.1	A 5-year income tax holiday for pharmaceutical shops.....	23
3.8.2	A 10-year income tax holiday for high end private health facilities.....	24
4.	General Conditions .....	24



## Ministry of Finance

### Abbreviations

i.	ST	:	Sales Tax
ii.	CD	:	Customs Duty
iii.	BTC	:	Bhutan Trade Classification
iv.	BIT	:	Business Income Tax
v.	CIT	:	Corporate Income Tax
vi.	PIT	:	Personal Income Tax
vii.	IT Act	:	Income Tax Act, 2001
viii.	DRC, HQ	:	Department of Revenue & Customs, Head Quarter.
ix.	RRCO	:	Regional Revenue & Customs Office
x.	RA	:	Reinvestment Allowance
xi.	R&D	:	Research & Development
xii.	NEC	:	National Environment Commission
xiii.	CSIs	:	Cottage & Small Industries
xiv.	ICT	:	Information & Communication Technology
xv.	IT/ITES	:	Information Technology / Information Technology Enabled Services
xvi.	RGOB	:	Royal Government of Bhutan
xvii.	RSTA	:	Road Safety & Transport Authority
xviii.	BPO	:	Business Processing Outsource
xix.	MOF	:	Ministry of Finance
xx.	TCB	:	Tourism Council Board
xxi.	MICE	:	Meetings, International Conventions & Exhibitions
xxii.	BICMA	:	Bhutan Information, Communications & Media Authority
xxiii.	MLHR	:	Ministry of Labour & Human Resources
xxiv.	MOE	:	Ministry of Education
xxv.	DOA	:	Department of Agriculture
xxvi.	DOI	:	Department of Industry
xxvii.	MOEA	:	Ministry of Economic Affairs
xxviii.	MOH	:	Ministry of Health
xxix.	CDB	:	Construction Development Board



ROYAL GOVERNMENT OF BHUTAN  
MINISTRY OF FINANCE  
TASHICHHEO DZONG

## Rules and Regulations on Fiscal Incentives 2010

In exercise of the powers conferred under Part I, Chapter 3, Section 8, and Part II, Chapter 3, Section 9 of the *Income Tax Act 2001*, and Part I, Chapter 2, Section 3.2 and Part II, Chapter 3, Section 5.2 of the *Sales Tax, Customs and Excise Act 2000*, the Ministry of Finance is pleased to announce the following Rules and Regulations on fiscal incentives.

These Rules shall be called the Rules and Regulations on Fiscal Incentives 2010, and supersede all previous rules on tax incentives.

They shall come into force from the date of the Fiscal Incentives Notification, unless otherwise specified.

### I Tax Incentives

#### 1 General Incentives

##### 1.1 Sales Tax (ST) & Customs Duty (CD) exemption on import of Plant and Machinery.

- a. It shall be granted until 31<sup>st</sup> December, 2019.
- b. To avail of the incentives, the following conditions must be fulfilled:
  - i) The importer is a licensed manufacturing or service unit and not a trading unit;
  - ii) The unit is registered as a taxpayer with the Department of Revenue & Customs (DRC);
  - iii) Technical clearance and import authorization from the concerned organizations, in case of restricted items, is submitted along with the application for exemption.
- c. Spares and accessories shall be taxable.
- d. "Plant and machinery" for the purposes of these Rules mean such plant and machinery which are peculiar to and directly related to the manufacture of the unit's product. Goods for civil, electrical, and plumbing works, and other materials used for installation or housing the plant and machinery including



spares, accessories, consumables, tools, kits, office equipment, furniture and vehicles, irrespective of the nature of the business, do not form part of plant and machinery.

**1.1.1 Procedures for applying ST & CD exemption on plant and machinery.**

The applicant should submit the following documents:

- a. Duly filled, sealed and signed application form (**ST Form II**) for ST exemption;
- b. Duly filled, sealed and signed application form (**CD Form I**) for CD exemption;
- c. A letter of undertaking as per the prescribed format affixed with legal stamp, sealed and signed for both ST & CD exemption;
- d. Copy of pro-forma invoice/bills for the purpose of both ST & CD exemption;
- e. Import license/permit issued by the authorised agency for imports made from third countries;
- f. Project documents/Agreements/Letters certifying the source of funding for the purpose of both ST & CD exemption, where applicable.

**1.2 (a) ST exemption on import of permissible raw materials.**

- a. It shall be granted until *31<sup>st</sup> December, 2019*.
- b. To avail of the incentives, the following conditions must be fulfilled:
  - i) The importer is a licensed manufacturing unit;
  - ii) The unit is registered as a taxpayer with the DRC;
  - iii) Raw materials are included in the list approved by the DRC for a particular industry.
- c. Technical clearance and import authorization from the concerned organizations, in case of restricted items, is submitted along with the application for exemption.
- d. “*Raw materials*” for the purposes of these Rules mean those items that are used as direct inputs in the manufacturing process and forming part of the finished products or those items that form part of the finished or manufactured products without which the goods cannot be retailed.

**1.2(b) ST exemption on primary packaging materials for manufacturing industry.**

- a. It shall be granted until *31<sup>st</sup> December, 2019*.
- b. To avail of the incentives, the following conditions must be fulfilled:





- i) The importer is a licensed manufacturing unit;
  - ii) The unit is registered as a taxpayer with the DRC;
  - iii) Packaging materials feature in the list approved by the DRC for a particular industry.
- c. “Primary packaging materials” for the purpose of these rules are defined as those materials without which the product cannot assume its final identity or likewise cannot be retailed. The production is deemed to be complete when the finished product assumes its final identity, complete with label and packaging.

**1.2.1 Procedures for applying for ST exemption on permissible raw materials and packaging material imported from India.**

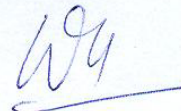
The applicant should submit the following documents to the concerned RRCO:

- a. Duly filled, sealed and signed application form with the correct Bhutan Trade Classification (BTC) codes, commodity description and tentative quantity for a year by 31<sup>st</sup> October every year for the following year;
- b. A letter of undertaking as per the prescribed format, affixed with legal stamp, sealed and signed for ST exemption.

**1.2.2 Procedure for applying ST & CD exemption on permissible raw materials imported from third countries.**

The applicant should submit the following to the DRC, HQs:

- a. Import license/permit issued by the authorised organisation;
- b. Duly filled, sealed and signed application form (**ST Form II**) for ST exemption;
- c. Duly filled, sealed and signed application form (**CD Form I**) for CD exemption;
- d. A letter of undertaking as per the prescribed format affixed with legal stamp, sealed and signed;
- e. Certificate of Origin, issued by the authority concerned, for goods which have earned convertible currencies in order to avail CD exemption;
- f. A certificate of value addition (40%) issued by the Department of Industry (DoI);
- g. A copy of pro-forma invoice/bills for the goods to be imported;
- h. Statement issued by recognized financial institutions confirming the receipt of the convertible currency earned from the export of goods;





- i. Project documents/Agreements/Letters certifying the source of funding for the purposes of both ST & CD exemption, where applicable.

**1.3 CD exemption on import of permissible raw materials.**

- a. It shall be granted until *31<sup>st</sup> December 2019*.
- b. To avail of the incentives, the following conditions must be fulfilled:
  - i) The importer is a licensed manufacturing unit;
  - ii) The unit is registered as a taxpayer with the DRC;
  - iii) Raw material is included in the list approved by the DRC for a particular industry;
  - iv) Manufacturing industries earn their own convertible currency through the export of their finished products manufactured from the imported raw materials and through the export of agro, forest, and mineral products of Bhutanese origin. In the case of companies or businesses which do not meet this condition, CD would be imposed as applicable from time to time;
  - v) Notwithstanding *Rule 1.2 and 1.3*, the imports made by companies, businesses and industries earning their own foreign exchange for trading purposes shall not be exempted from the applicable taxes.
- c. Technical clearance and import authorization from the concerned organizations, in case of restricted items, is submitted along with the application for exemption.
- d. "*Raw materials*" for the purpose of these Rules mean those items that are used as direct inputs in the manufacturing process and forming part of the finished products or those items that form part of the finished or manufactured products without which the goods cannot be retailed.

**1.4 ST & CD exemption to financial institutions for purchase of software/hardware for credit/ debit cards or for electronic payments use.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. To avail of the incentives, the following conditions must be fulfilled:
  - i) It should be declared like any other normal goods with the concerned RRCO;
  - ii) Technical clearance and import authorization from the concerned agencies, in case of restricted items, will be required to be submitted along with the application for exemption.



**1.5 ST & CD exemption for purchase of electric cars/hybrid cars, including its spare parts, and cars that run on renewable energy.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. There should be proper authentication of import with recommendation from the RSTA.

**1.6 Tax exemption on convertible currency export earnings.**

**1.6.1 A 10-year income tax holiday on export earnings of newly established entities.**

- a. The period of exemption shall be 10 years starting from the date of commercial operation.
- b. To avail of the incentives, the unit must be newly established and commencing commercial operation from *1<sup>st</sup> of Jan 2010 to 31<sup>st</sup> December 2015*.

**1.6.2 A 5-year income tax holiday on export earnings of the existing entities.**

- a. The period of exemption shall be until *31<sup>st</sup> December 2014*.
- b. It shall be for those business entities established any time from *1<sup>st</sup> Jan 2004 and 31<sup>st</sup> December 2009*.

**1.6.3 Conditions applicable to Sections 1.6.1 and 1.6.2 of these Rules.**

- a. Export earnings earned must be from export of domestically manufactured goods with a minimum value addition of 40 %.
- b. Export earnings must be in convertible currency.
- c. Export earnings from tourism and travel agency businesses shall not form part of exemption.
- d. The unit must fulfill accounting and auditing standards prescribed under the Companies Act/Income Tax Act.
- e. Exemption from tax shall not preclude the requirement to declare the income to the tax authorities. It shall be mandatory to declare their earnings and submit the books of accounts to the RRCO concerned.
- f. Where export earning is in convertible as well as in other currencies, only the earnings in convertible currencies shall be exempted from BIT/CIT. Expenses pertaining to the exempt income shall not be eligible for deduction.
- g. All transactions in convertible currency must be routed through a Royal Government recognized financial institution, and must submit all records to the concerned RRCO with whom they are registered for auditing purposes.





- h. All earnings in convertible currency will have to be brought into Bhutan within 6 months of the exports.

**1.7 Reinvestment Allowance (RA) of 25 %.**

- a. RA shall be allowed to be claimed as deductible expenditure in the year following the completion of the qualifying project, i.e. after the building is completed or when the plant/machinery is put into operation.
- b. 25% RA shall be allowed once for every new reinvestment undertaken in the business from *1<sup>st</sup> January 2010 till 31<sup>st</sup> December 2015*, and shall be set off against the taxable income.
- c. Assets acquired through reinvestment cannot be disposed off earlier than five years from the time of reinvestment. In the event the asset is disposed off, reinvestment allowance previously given shall be withdrawn and subject to tax accordingly. "*Disposed off*" here means sold, conveyed, transferred, assigned, or alienated with or without consideration.
- d. Reinvestment which is in the nature of recurrent expenditure shall not be allowed.
- e. Capital expenditure incurred for replacement of the existing fixed assets or for purchase of office furniture, fixtures and equipment will not be eligible for reinvestment allowance.
- f. Where the absorption of the re-investment allowance of 25% of the total re-investment made, generates a loss in the books of accounts of an otherwise profit making company, such loss will not be allowed to be carried forward.
- g. To avail of the incentives, the following conditions must be fulfilled:
  - i) The unit is registered under the Companies Act, 2000.
  - ii) Capital expenditure incurred is for expansion of production capacity, modernization, automation, product diversification and up-gradation of production facilities, with corresponding quantifiable increase in the output.
  - iii) The unit has been in operation and making profits for at least two successive income years prior to the year of reinvestment.
  - iv) Reinvestment has been actually undertaken in the business from general reserves and not through loans, and is supported by necessary development plans and other relevant documents.
- h. "*Reinvestment*" means those expenditures on fixed assets, for expansion of production capacity or diversification of activities.



**1.8 Deduction of Research & Development (R & D) from taxable income.**

Notwithstanding the limits prescribed in the *Rule No. 2.4.2, Part I of the Rules on the Income Tax Act, 2000*, deduction on R&D expenditure shall be allowed in whole in the year the R&D expenditure is incurred, provided that;

- a. Scientific research and development undertaken is directly related to the entities actual line of business, including research and development for diversification of its products as specified in the articles of association.
- b. Facilities for carrying out scientific research and development is created and maintained with required manpower on a continuing basis.
- c. There is agreement with the concerned authority for publication of the research and development outcomes, and for audit of the books of accounts maintained for that facility.

**1.9 Grant made by an entity for R & D shall be allowed as tax-deductible expenditure.**

It shall be subject to the following conditions:

- a. Grant provided must be for carrying out scientific research and development on areas relevant for Bhutan.
- b. Research work must be published and accredited by a government recognized organization/institutes.
- c. Deduction shall be given only upon completion and submission of research work.

**1.9 Tax rebate, of up to 15 % of the up-gradation expenses, to industries adopting modern environmentally-friendly technologies**

- a. It shall be applicable to industries adopting such technologies *on or before 31<sup>st</sup> December 2015*.
- b. Rebate shall be allowed only to the extent covered by the BIT/CIT amount payable for the income year. The rebate amount not covered, due to business loss, will not be admissible to be claimed or carried forward in the subsequent income years.
- c. It shall be provided subject to fulfillment of the condition that the technological up-gradation meets the criteria and specifications over and above the minimum standards prescribed by law and duly certified by the National Environment Commission (NEC).





- d. “*Environmentally-friendly technology*” means those technologies that are new in the international market, and as certified by the manufacturer and NEC.

**1.10 Enhancement of the salary ceiling.**

As prescribed under the existing *Rule No. 2.3.1 of the Rules on the Income Tax Act*, the salary ceiling for all unincorporated businesses, irrespective of the sector, shall be as follows.

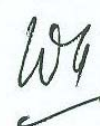
Business Category	Existing (Amount per month)	New (Amount per month)	% Change
Large	30,000	50,000	67%
Medium	20,000	40,000	100%
Small	15,000	30,000	100%
Cottage/ Micro	5,000	20,000	300%

The above deduction shall be allowed only for those units maintaining books of accounts and declaring the salary income under PIT. This shall be effective from income year 2010.

**1.11 Tax holiday to existing businesses entities.**

In order to avail the applicable tax holiday provided under these rules, the existing business entities must fulfill the following conditions:

- The date of establishment and commercial operation of the business must be between *1<sup>st</sup> July 2007 and 31<sup>st</sup> Dec 2009*.
- The date of establishment and the commencement of commercial operation must be supported and evidenced by a *Tax Registration Certificate* issued by RRCO concerned.
- It shall apply to only those existing businesses, which are covered in these Rules and provided with tax holiday.
- Tax holiday period shall be effective from *1<sup>st</sup> Jan 2010* for the remaining period only. For e.g., if the date of establishment/commercial operation is *1<sup>st</sup> Jan 2008*, the applicable tax holiday period will be for 8 years, that is, until *31<sup>st</sup> Dec 2017*.
- Taxes already paid during the period between *1<sup>st</sup> July 2007 and 31<sup>st</sup> Dec 2009*, shall not be refunded.





## **2 Specific Incentives**

### **2.1 Cottage and Small Industries (CSI) and Co-operatives**

#### **2.1.1 A 10-year income tax holiday for new CSIs and Co-operatives.**

It shall be subject to the following conditions:

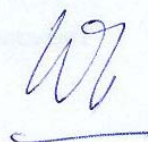
- a. New CSIs and co-operatives must be those established between *1<sup>st</sup> January 2010 and 31<sup>st</sup> December 2015*.
- b. It shall be effective from *the date of commercial operation*.
- c. Co-operatives must be those established as per the Co-operatives Act, and it must be a licensed entity.
- d. They should be located outside Thimphu and Phuentsholing city areas.

#### **2.1.2 Additional 10-year income tax holiday to CSIs and co-operatives located in the interior areas.**

The interior areas will be as notified by the *Royal Government* from time to time.

#### **2.1.3 Waiver of income tax on interest income earned by financial institutions through lending at preferential rates to CSIs (including those provided under entrepreneurship development programmes) and co-operatives.**

- a. It shall be granted *for 5 years*.
- b. The CSIs and co-operatives receiving the credits at concessional rates must be licensed/registered entities.
- c. It shall be on credits provided from *1<sup>st</sup> Jan 2010 to 31<sup>st</sup> December, 2015*.
- d. The preferential lending rates should be publicly announced.
- e. The interest income should be declared separately in the books of accounts.
- f. "CSIs" mean small, cottage and micro units as categorized in the Income Tax Rules.
- g. Loans provided under entrepreneurship development programmes should be certified by the Ministry of Labour and Human Resources (MOLHR).



**2.1.4 ST & CD exemption for individual artisans and craftsmen in the rural areas.**

- a. It shall be granted until *31<sup>st</sup> December, 2015* as per procedures prescribed by the MoF.
- b. It shall be on equipment and labour-saving devices.
- c. There must be a recommendation from the Gup.

**2.2 For Waste Management and Recycling Industry**

**2.2.1 A 15-year income tax holiday shall be provided to waste management /recycling entities.**

It shall be subject to the following conditions:

- a. Waste Management unit must be a licensed entity.
- b. It shall be effective from *the date of commercial operation*.
- c. It must fulfill the minimum standards and conditions prescribed by NEC.

**2.2.2 ST & CD shall be exempted on the import of plant and machinery for waste management/recycling activities.**

- a. It shall be granted *31<sup>st</sup> Dec 2015*.
- b. Plant and machinery to be imported must be certified by NEC
- c. Exemption from ST & CD shall be subject to fulfillment of the conditions and procedures prescribed under *Rule No.1.1 & 1.1.1* of these Rules.

**3. Sector-Specific Incentives**

**3.1 Agriculture Sector**

**3.1.1 Income tax holiday of 10 years for commercial farming and related processing of its products. An additional 5-year tax holiday shall be provided for commercial farming of organic produces.**

- a. It shall be effective from *the date of first sale*.
- b. The farm must be a licensed business entity, and it should have been established within the period from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015*.
- c. There must be a certification from the Department of Agriculture (DOA).





**3.1.2 ST & CD exemptions on farm machinery, including any other agricultural inputs.**

It shall be granted until *31<sup>st</sup> December, 2015*.

Agricultural inputs which are environmentally harmful shall not be exempted.

**3.2 Information and Communications Technology (ICT) Sector**

Businesses engaged in the re-export of IT-related products shall not be eligible for any incentives.

**3.2.1 A 15-year income tax holiday for the IT-park developer, engaged in the establishment of the IT park and related infrastructure and IT promotion services.**

- a. It shall be effective from the actual *date of commercial operation*.
- b. Applicability shall be to businesses established, licensed and commercially operated within the period from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015*.
- c. ST & CD shall be exempted on imported construction materials forming direct inputs for IT park development till *31<sup>st</sup> Dec 2015*.

**3.2.2 A 10-year income tax holiday for the IT/ ITES businesses operating within IT park.**

- a. It shall be effective from the actual *date of commercial operation/ production* of goods and/or services.
- b. It shall be applicable to businesses established, licensed and commercially operated within the period from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015*.
- c. It shall be subject to the following conditions:
  - i) 80% or more of their products/services should be exports.
  - ii) All transactions in convertible currency are through a financial institution recognized by the RGoB, and all the records are submitted to the RRCO concerned.
  - iii) All earnings in convertible currency are brought into Bhutan within 6 months of the exports.

**3.2.3 A 5-year income tax holiday to the IT-enabled service businesses located outside IT park.**

- a. It shall be effective from the *date of commercial operation*.
- b. The business must be a newly established entity licensed and commercially operated between *1<sup>st</sup> January 2010 and 31<sup>st</sup> December 2015*.
- c. 80% of the professional staff employed should be nationals.



- d. It shall be applicable to soft-ware development entities, Business Processing Outsource (BPO) units and any others as may be notified by the MoF.

**3.2.4 ST & CD exemptions on computers and related hardware and software for IT-enabled service providers.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. It shall be applicable to soft-ware development entities, BPO units and any others as may be notified by the MoF.
- c. It shall be declared like any other normal goods with the concerned RRCO.

**3.2.5 ST & CD shall be exempted on imported construction materials forming direct inputs for IT park development.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. It shall be applicable to only construction materials required for IT park development, duly certified by the project manager.
- c. It shall be declared like any other normal goods with the concerned RRCO.

**3.3 Tourism Sector**

**3.3.1 A 10-year income tax holiday to newly established high-end hotels.**

It shall be effective from the date of commercial operation provided that

- a. The unit is newly established and commencing commercial operations any time from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December, 2015*.
- b. High-end hotels established is as per standards and ratings prescribed by the Tourism Council of Bhutan (TCB).

**3.3.2 Reinvestment allowance of 25 % of total capital expenditure incurred shall be given once for the up-gradation of existing hotels to 3 stars and above.**

- a. It shall be granted until *31<sup>st</sup> December 2015*.
- b. This will be subject to fulfillment of conditions laid down under *Rule No. 1.7* of the General Incentives, except condition No. g (i).

**3.3.3 The Income Tax Act will be reviewed to allow entertainment expenses up to 5% of the assessed net profit.**





**3.3.4 ST & CD exemption on vehicles for tour operators.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. The number of buses permitted shall be not more than one in a period of 5 years for unincorporated tourism business enterprises and not more than five for incorporated companies at any point of time.
- c. The beneficiary must be a registered tour operator.
- d. The name of the business entity should be displayed on the vehicles.
- e. If the business closes down within the five year of the purchase, the said business entity shall be liable for all the taxes and duties waived or should pass on the vehicle to another eligible business entity.
- f. For the purpose of these rules, "*vehicle*" shall mean buses of 10-seater capacity and above.

**3.3.5 ST & CD exemption on camping, trekking, rafting, kayaking, boating and such other equipment for adventure tourism.**

- a. It shall be granted until *31<sup>st</sup> December 2019*.
- b. It shall be subject to the following conditions:
  - i) Equipment are solely for the purpose of adventure tourism;
  - ii) The beneficiaries must be registered tour operators;
  - iii) The concerned units must maintain proper books of accounts and inventory of such equipment.

**3.3.6 ST to be charged on published or actual charged (discounted) room rents rather than on rack rates of the hotels.**

- a. It shall be applicable only to hotels with computerized billing system.
- b. It shall be subject to the fulfillment of the following conditions that the entity:
  - i) issues computer generated serially numbered bills/cash memos. The copy of bills/ cash memos issued to customer should be maintained for record and verification purpose;
  - ii) does not overwrite in the bills/cash memos. In case of mistake, a fresh copy must be issued and the original copy must be annulled and maintained for verification purposes;
  - iii) maintains an accurate and complete guest register, showing the name and address of each guest, and the duration of stay;
  - iv) makes all accounts, records, registers and supporting documents available for inspection by the DRC;

Ministry of Finance

- v) realizes the correct sales tax amount from the customer at the point of sale and account for it on an accrual basis;
- vi) deposits the sales tax collected to the concerned RRCO as per **Form ST-V (B)** by the 10<sup>th</sup> of the subsequent month following the collection/realization;
- vii) submits the details of the sales made to an exempt organization as per **ST form- V (A)** along with ST Exemption Certificate (**ST Form-IV**) issued by the DRC.

**3.3.7 ST & CD exemption on import of furniture & fixtures, kitchen & laundry equipment, mattresses & linens, cutlery & crockery (with embossed logo of the hotel concerned), sanitary wares and electrical fittings (excluding wires) by hotel industry.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*, for a list of items issued by the DRC and reviewed from time to time.
- b. To avail of the incentives, the hotel must have been upgraded to a higher standard and accordingly verified by TCB.

**3.3.8 Farm Houses registered with TCB as hospitality units shall be exempted from income tax.**

It shall be granted from *1<sup>st</sup> January 2010 until 31<sup>st</sup> December 2015* subject to fulfillment of following conditions:

- a. Farm house should cater specifically to international tourists wishing to experience the Bhutanese farm life.
- b. Farm house meets the standards for hospitality as prescribed by TCB.

**3.3.9 A 10-year income tax holiday for lodges/guest houses registered with TCB as hospitality units.**

It shall be granted from *1<sup>st</sup> January 2010 until 31<sup>st</sup> December 2015* subject to fulfillment of following conditions:

- a. Lodges/guest houses meet the standards for hospitality as prescribed by TCB.
- b. The unit is newly established and commencing commercial operations any time from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December, 2015*.
- c. Lodges/guest houses is a licensed entity.

**3.3.10 Waiver of daily tourist tariff/royalty for foreign participants in meetings, international conventions and exhibitions (MICE).**

- a. The waiver shall be subject to following conditions:

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Ministry of Finance

- i) The MICE organized by international companies or agencies;
  - ii) They have prior approval of the Government.
- b. All visa applications for MICE participants shall be routed through the TCB.
- c. The DRC shall issue the exemption letter.

**3.4 Film and Media Sector**

**3.4.1 A 10-year income tax holiday shall be provided to the entities producing animation films.**

It shall be granted from the date of commercial operation provided that the unit is newly established, licensed and commencing commercial operations any time from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December, 2015.*

**3.4.2 A 5-year income tax exemption on earnings from production of films, documentaries and serials for public broadcasting.**

- a. It shall be applicable to those produced during the period from *1<sup>st</sup> Jan 2010 to 31<sup>st</sup> December 2015.*
- b. It shall be subject to fulfillment and conditions prescribed by the Bhutan Information, Communications and Media Authority (BICMA).

**3.4.3 A 5-year income tax holiday to the media service providers viz. print media, and broadcasting entities.**

- a. It shall be for those established and commencing commercial operations on or before *31<sup>st</sup> of December 2015.*
- b. It shall be subject to fulfillment of the following conditions:
  - i) The newly established media entities must be companies registered under the Company's Act, 2000;
  - ii) Such a company is not one which has already availed of tax holidays before under a different name, ownership, business organization, or location;
  - iii) Exemption shall apply only on income from the publication of newspapers and periodicals (both English and Dzongkha edition), where such a company has various other sources of income. In this regard, the company must maintain separate accounts for the unit availing the tax holiday;
  - iv) Any profit gained or loss sustained by the unit availing the tax holiday cannot be charged or used to offset the profits or loss of the other units.



**3.4.4 ST & CD exemptions on Specific professional equipment required by the media service providers, viz. print media, broadcasting, film production entities and animation film industry.**

- a. It shall be granted until *31<sup>st</sup> December, 2015* for licensed entities.
- b. It must qualify as Plant and Machinery as per the definition provided under *clause No. 1.1 (d)* of these Rules.

**3.4.5 Reduction of ST on Bhutanese cinema from 30% to 10%.**

It will be subject to following conditions that:

- a. the producers:
  - i) intimate in writing to the RRCO concerned before screening;
  - ii) maintain proper books of accounts as per the requirements of the Act;
  - iii) issue printed and serially numbered film tickets, which are duly endorsed by RRCO concerned;
  - iv) maintain separate records of the sale proceeds as per location of the show/screening;
  - v) do not overwrite on film tickets.
- b. All accounts, records, registers are available for inspection by the DRC;
- c. ST amount collected are deposited to the RRCO concerned as per *Form ST-VII* by 10<sup>th</sup> of the month following the collection.

**3.4.6 Exemption from royalty on filming or production of promotional non-commercial audio visual programmes or movies or documentaries of Bhutan by foreign media organizations.**

It shall be subject to fulfillment and conditions prescribed by BICMA.

**3.5 Construction Sector**

**3.5.1 ST & CD exemption on heavy machinery, earth-moving equipment, drilling equipment, tippers, and dumpers for contractors and hiring companies.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. The beneficiary is a licensed construction business entity registered with Construction Development Board (CDB).
- c. The hiring business unit must be an incorporated entity.

**3.5.2 ST & CD exemptions on green building materials.**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.





- b. Green building materials mean items such as solar panels, reusable construction materials, etc. a list of which shall be notified by the MoF.
- c. There is certification from NEC/authorized agency.

### **3.6 Transport Sector**

#### **3.6.1 ST & CD exemption for buses used by passenger transport entities.**

- a. It shall be granted until *31<sup>st</sup> December 2015*.
- b. The bus service operators should be licensed.
- c. The bus should be registered in the businesses' name.

#### **3.6.2 A 5-year income tax holiday shall be provided to taxi/car-hire service providers.**

- a. It shall be applicable to those incorporated companies commencing commercial operations from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015*.
- b. The taxi/car should be registered in the company's name.

### **3.7 Education Sector**

#### **3.7.1 An income tax holiday of up to 15 years for educational and vocational institutes newly established outside Thimphu and Phuntsholing city areas.**

- a. It shall be applicable to those commencing commercial operations from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015*.
- b. The tax holiday period shall commence from the actual *date of commercial operation*.
- c. The following conditions shall also apply:
  - i) The institutes must have their own infrastructure such as building and other facilities. Institute operating from hired premises shall not be eligible for tax holiday;
  - ii) There must be a recommendation from the Ministry of Education (MoE)/Ministry of Labour and Human Resources (MLHR);
  - iii) All formalities and conditions as laid down by the MoE/MLHR for the purpose must be fulfilled;
  - iv) There must be a valid trade license issued by the relevant Government authority;



- v) Educational institutes shall include privately funded local or international schools/colleges as defined and categorized by the MoE or MLHR.

**3.7.2(a) ST & CD exemptions on imported textbooks, journals, periodicals, teaching aid materials and library books and furniture and fixtures**

- a. It shall be granted until *31<sup>st</sup> December, 2015*.
- b. It will apply to import of:
  - i) text books, library books, journals, periodicals published by foreign publishers/ authors.
  - ii) furniture and fixtures for class rooms and auditoriums.
  - iii) green building materials and special materials for the construction of educational facilities.
- c. A list of the items eligible shall be notified by the MoF.

**3.7.2(b) ST & CD exemptions on buses for educational institutes.**

- a. It shall be granted for a maximum of five buses every seven years until *31<sup>st</sup> December 2015*.
- b. The actual number of buses, up to a maximum of 5, will be based on one bus for every 100 students enrolled.
- c. It will be provided for buses of at least of 10-seater capacity.
- d. Buses shall be colour-coded and shall bear the name of the school upon import.
- e. The importer has a valid import license.

**3.8 Health Sector**

**3.8.1 A 5-year income tax holiday for newly established pharmaceutical shops in the rural areas.**

- a. It shall be granted to those licensed and established from *1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015*.
- b. "Rural Area" means places outside the municipal boundaries of Thimphu Dzongkhag and Phuentsholing Dungkhag.
- c. Relocation of the existing units into the rural areas shall also be eligible for the above tax holiday.



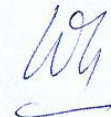
**3.8.2 A 10-year income tax holiday for newly established high-end private health facilities.**

- a. It shall be granted to those licensed and established from 1<sup>st</sup> January 2010 to 31<sup>st</sup> December 2015.
- b. The unit must be approved by the government; and
- c. All formalities and conditions as laid down by the Ministry of Health (MoH) for setting up the facility must be fulfilled.

**4 General Conditions**

The following conditions shall apply to all the incentives given in these Rules:

- 4.1 All the existing rules, regulations and procedures prescribed in *The Income Tax Act, 2001, and The Sales Tax, Customs and Excise Act, 2000 and rules thereof* shall apply unless otherwise specified in these Rules.
- 4.2 Goods exempted from ST and/or CD shall not be sold or re-exported.
- 4.3 There should be licenses and permits, where applicable.
- 4.4 Business entities eligible for fiscal incentives under these Rules shall be required to:
  - register with the RRCO concerned within 30 days from the date of obtaining a license from the MoEA, if they are newly established;
  - apply for incentives to the DRC in the prescribed format;
  - maintain books of accounts as prescribed in the Income Tax Rules;
  - submit annual returns before 31<sup>st</sup> March every year; non-submission of accounts shall result in the levy of fines and penalties as per the provisions of the *Income Tax Act 2001*;
  - account exempted goods in the stock/assets register for verification purposes.
- 4.5 Units formed by splitting up or reconstruction of a business already in existence, or by transfer of machinery or plant previously used for any purpose, or change of ownership shall not be eligible for tax holiday.
- 4.6 For the purpose of these rules, “*commercial production*” means production on a continuous basis and does not include trial production period.
- 4.7 Notwithstanding *Rule No. 2.8, Part I of the Income Tax Rules*, entities eligible for tax holiday as per these Rules shall not be allowed to carry forward losses to subsequent income years.
- 4.8 Misuse of exemption facilities, and non-compliance with the provisions of *The Income Tax Act, 2001, The Sales Tax, Customs and Excise Act, 2000 and rules thereof*, and the *Incentive Rules and Regulations* prescribed herein, shall result in



Ministry of Finance

withdrawal of exemptions/incentives permanently and imposition of penalties as per the laws in force.

- 4.9 Tax Clearance Certificate shall be issued only upon submission of annual accounts, irrespective of whether they are on tax-holiday or not.

**Note:** The notification and the rules and regulations are available at the Ministry of Finance's Website, [www.mof.gov.bt](http://www.mof.gov.bt)

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