



# FISCAL INCENTIVES 2016

**Department of Revenue & Customs  
Ministry of Finance  
Thimphu : Bhutan**





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ROYAL GOVERNMENT OF BHUTAN  
MINISTRY OF FINANCE  
TASHICHODZONG

DRC/STD(FI)4/2017/2453

4<sup>th</sup> April, 2017

NOTIFICATION

**Fiscal Incentives 2016**

The Ministry of Finance is pleased to announce the Fiscal Incentives 2016 to stimulate economic growth, private sector development and employment generation. The Rules and Regulations on Fiscal Incentives 2016 are attached herewith.

The Fiscal Incentives 2016 is divided into two parts viz. *Direct Tax incentives* and *Indirect Tax Incentives*. The Direct Tax and Indirect Tax incentives are further divided into *General Incentives* and *Sector Specific Incentives*. The General Incentives are applicable to all the sectors of the economy and Sector Specific Incentives are applicable to the priority sectors identified under Economic Development Policy, December 2016 including the five jewels.

The Fiscal Incentives 2016 shall supersede all the previous incentives and any rules that contravene with these incentives.

Besides, it shall also supersede the 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> November 2007 regarding the specific and concessional rates on imported raw materials announced vide Fiscal Incentives 2010.

These incentives shall come into force with retrospective effect from 1<sup>st</sup> January, 2016, unless otherwise specifically provided under these Rules.

NAMGAY DORJI  
FINANCE MINISTER





**Rules and Regulations on  
Fiscal Incentives  
2016**

## ACRONYM

<b>BICMA</b>	:	Bhutan Information, Communications & Media Authority
<b>BIT</b>	:	Business Income Tax
<b>BOC</b>	:	Bhutan Olympic Committee
<b>BSB</b>	:	Bhutan Standards Bureau
<b>CD</b>	:	Customs Duty
<b>CDB</b>	:	Construction Development Board
<b>CIT</b>	:	Corporate Income Tax
<b>CSIs</b>	:	Cottage & Small Industries
<b>DGM</b>	:	Department of Geology and Mines
<b>DHPS</b>	:	Department of Hydropower and Power Systems
<b>DRC, HQ</b>	:	Department of Revenue & Customs, Head Quarter.
<b>DTAA</b>	:	Double Taxation Avoidance Agreement
<b>ICT</b>	:	Information & Communication Technology
<b>IT Act</b>	:	Income Tax Act, 2001
<b>IT/ITES</b>	:	Information Technology/Information Technology Enabled Services
<b>MOAF</b>	:	Ministry of Agriculture & Forest
<b>MOE</b>	:	Ministry of Education
<b>MOEA</b>	:	Ministry of Economic Affairs
<b>MOF</b>	:	Ministry of Finance
<b>MOH</b>	:	Ministry of Health
<b>MOIC</b>	:	Ministry of Information and Communication
<b>MOLHR</b>	:	Ministry of Labour & Human Resources
<b>NECS</b>	:	National Environment Commission Secretariat
<b>R&amp;D</b>	:	Research & Development
<b>RA</b>	:	Reinvestment Allowance
<b>RNR</b>	:	Renewable Natural Resources
<b>RRCO</b>	:	Regional Revenue & Customs Office
<b>RSTA</b>	:	Road Safety & Transport Authority Services
<b>ST</b>	:	Sales Tax
<b>STCA</b>	:	Sales Tax Collecting Agent
<b>TCB</b>	:	Tourism Council of Bhutan
<b>TDS</b>	:	Tax Deducted at Source

## DEFINITION

1. **Commercial operation:** Sale of goods and services including goods and services sold during trial production for a consideration in money or money's worth.
2. **Convertible Currency:** Foreign currency defined by RMA as per the Foreign Exchange Regulations 2013.
3. **Immediate family members:** means spouse, parents and children including legally adopted.
4. **Initial Public Offering (IPO):** means first sale of securities by an issuer company to the general public.
5. **Integrated wood industry:** Shall mean a wood processing facility that has mechanized production processes for the wood based products to be manufactured. Based on the product to be manufactured, the industry shall have the required mechanized manufacturing processes such as for log handling, sizing, seasoning planning and sanding, gluing, joinery, polishing and other aspects of the required processes. Stand alone saw milling operations shall not be considered as integrated wood processing facility.
6. **Plant and machinery:** Plant and machinery means such plant and machinery that are peculiar to and directly related to the manufacture of the unit's product or to provide the services specified in the license.
7. **Primary packaging materials:** Primary packaging materials are those materials that are required for packing, bottling and labeling without which the product cannot assume its final identity with its brand name or without which the product cannot be sold.
8. **Public broadcasting :** means broadcasting through TV and radio.
9. **Raw materials:** Raw materials are those items that are used as direct inputs in the manufacturing process and forming part of the finished product.
10. **Reinvestment Allowance (RA):** An allowance available to a business as deductible expenditure for additional capital expenditure incurred.
11. **Reinvestment:** An additional capital expenditure made in the business out of the general reserve.
12. **Selective private health service:** Selective private health service identified and approved by Ministry of Health.
13. **Tax holiday:** A temporary elimination or reduction of annual income tax liability.
14. **Tax rebate:** An amount of tax allowed to be adjusted against the total income tax liability of a business.
15. **Tourist standard hotel:** A tourist standard accommodation certified by and registered with TCB.



## Table of Contents

<b>Part I: Direct Tax Incentives .....</b>	<b>7</b>
<b>General Incentives.....</b>	<b>7</b>
1 Income tax exemption on convertible currency earnings from export excluding INR earnings.....	7
2 Reinvestment allowance.....	8
3 Tax rebate to industries adopting modern environmentally- friendly technologies .....	9
4 Tax rebate for employing 100% Bhutanese nationals.....	9
5 Income tax holiday for broad based ownership.....	9
6 Waiver of interest income for financial institutions .....	10
<b>Sector-Specific Incentives.....</b>	<b>10</b>
7 Cottage and Small Industries (CSI) and Co-operative Sector.....	10
8 Mining Sector .....	11
9 Tourism Sector .....	12
10 Agriculture & RNR Sector .....	13
11 Education Sector .....	13
12 Health Sector .....	14
13 Information and Communication Technology.....	14
14 Transport Sector.....	15
15 Waste Management and Recycling Industries.....	16
16 Business Infrastructure Development.....	16
<b>Part II: Indirect Tax Incentives .....</b>	<b>19</b>
<b>General Incentives.....</b>	<b>19</b>
17 ST & CD exemption on plant and machinery.....	19
18 ST & CD exemption on permissible raw materials and primary packaging materials .....	19
19 ST & CD exemption for Point of Sale (PoS) machines and ATMS .....	22
20 ST & CD exemption on electronic cash register.....	22
21 ST & CD exemption on R&D equipment.....	23
22 ST & CD exemption for promotion of games & sports .....	23
<b>Sector Specific Incentives.....</b>	<b>24</b>
23 Energy Sector.....	24
24 Cottage and Small Industries (CSI) and Co-operatives Sector.....	25
25 Mining Sector .....	25
26 Tourism Sector .....	26

27	Agriculture& RNR Sector .....	28
28	Construction Sector.....	28
29	Education Sector .....	29
30	Health Sector .....	30
31	Information and Communication Technology Sector.....	30
32	Transport Sector.....	32
33	Waste Management and Recycling Industry.....	32
34	General Procedures for applying ST & CD exemption.....	33
35	General Conditions.....	33
	<b>Administrative Responsibility .....</b>	<b>35</b>



# **Part I: Direct Tax Incentives**



## **Part I: Direct Tax Incentives**

### **General Incentives**

#### **1. Income tax exemption on convertible currency earnings from export excluding INR earnings**

##### **(1) Income tax exemption of 10 years on convertible currency earnings from export by newly established manufacturing and IT service industries.**

(a) To avail the incentives, the following conditions must be fulfilled:

- (i) The business entity must be a licensed manufacturing and IT service industry registered with DRC as taxpayer;
- (ii) The unit must be newly established commencing commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (iii) Export earnings must be from export of Bhutanese origin goods;
- (iv) The exemption shall be provided to the extent of convertible currency earned from export sales. Expenses incurred in earning convertible currency shall not be allowed as deductible expenditure. Where actual expenses incurred for earning convertible currency cannot be determined, proportionate expenditure shall be disallowed at the ratio of export sales to total sales;
- (v) The manufacturing entities earning convertible currency must meet the minimum value addition criteria set by MoEA;
- (vi) Exemption from tax shall not preclude the requirement to declare the income to the tax authorities;
- (vii) 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;
- (viii) Statement issued by recognized financial institution confirming the receipt of the convertible currency earned from the export of goods must be submitted within the income year.

## 2. Reinvestment allowance

### (1) RA of 25% to Manufacturing and Service industries.

- (a) It shall be applicable for reinvestment undertaken in the form of capital expenditure between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (b) 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 or reduction in cost of production including increase in efficiency;
- (c) RA shall be allowed as deductible expenditure in the income year following the completion of the project, for instance after the building is completed or when the plant/machinery is put into operation;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) RA shall be allowed as deduction over and above the normal depreciation provided that the reinvestment expense is capitalized in the books in accordance with the Bhutanese Accounting Standards;
  - (ii) The company can either claim full deduction of RA in the same income year or split the claim in phased manner up to three subsequent years following the income year subject to a maximum limit of 25%;
  - (iii) In the event the asset is disposed off within 5 years from the date of completion of the project, RA previously given shall be withdrawn and subject to tax accordingly. “Disposed off” here means sold, conveyed, transferred, assigned or alienated with or without consideration;
  - (iv) Reinvestment which is in the nature of recurrent expenditure shall not be allowed;
  - (v) The business entity must be registered under the Companies Act of Bhutan, 2016;
  - (vi) 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;
  - (vii) Reinvestment expenditure shall exclude expenditure on purchase of land, furniture and fixture.

### **3. Tax rebate to industries adopting modern environmentally-friendly technologies**

#### **(1) Tax rebate of up to 15% of the up-gradation expenses for adopting modern environmentally-friendly technologies.**

- (a) It shall be applicable to industries adopting such technologies between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (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 shall be allowed to be carried forward to three subsequent income years following the income year;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The technological up-gradation should meet the criteria, specification and standard prescribed by the law;
  - (ii) There must be a letter of recommendation from NECS.

### **4. Tax rebate for employing 100% Bhutanese nationals**

#### **(1) Tax rebate of 10% shall be allowed to business employing 100% Bhutanese nationals with no less than 20 employees.**

- (a) It shall be applicable to businesses employing 100% Bhutanese nationals between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (b) 10% of the assessed tax amount shall be allowed as tax rebate;
- (c) To avail the incentives, following conditions must be fulfilled:
  - (i) Business entity must employ 100% Bhutanese nationals;
  - (ii) Business entity must employ at least 20 employees;
  - (iii) 100% employment of Bhutanese nationals must be maintained throughout the income year;
  - (iv) The number of employees must be certified by MoLHR.

### **5. Income tax holiday for broad based ownership**

#### **(1) Income tax holiday of 5 years to companies going for an IPO.**

- (a) It shall be applicable to the companies going for an IPO between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;

- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) Minimum 35% of the issued capital must be offered to the public for subscription as per the Regulations for Public Issue of Shares, 2015;
  - (ii) There must be a certification letter from the Company Registry Division, MoEA.

## **6. Waiver of interest income for financial institutions**

### **(1) Waiver of income tax on interest income earned by financial institutions through preferential lending for Education and Skills Development Program and Overseas Employment.**

- (a) It shall be granted from 1<sup>st</sup> January 2016 till 31<sup>st</sup> December 2020;
- (b) It shall be applicable to all financial institutions;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) Financial institutions must lend at preferential rate to individuals who has letter of recommendation from MoLHR for the purpose of Education and Skills Development Program and Overseas Employment;
  - (ii) The preferential lending rate must be lower than the commercial borrowing rate;
  - (iii) The interest income should be declared separately in the books of accounts.

## **Sector-Specific Incentives**

### **7. Cottage and Small Industries (CSI) and Co-operative Sector**

#### **(1) Income tax holiday of 10 years to CSIs and Co-operatives.**

- (a) It shall be applicable to newly established CSIs and Co-operatives;
- (b) The business should have commenced commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) CSIs must be a licensed business entity;
  - (ii) The categorization of CSI shall be as per the license issued by the authorized agency;
  - (iii) Co-operatives must be established under the Co-operative Act of Bhutan (Amendment) 2009 and must be approved by the concerned agency;

- (iv) CSIs must be involved in Production and Manufacturing of goods excluding sawmill, non-integrated furniture units, mining, quarrying, stone crushing and logging. In addition, priority service industries not included under the sector specific incentives shall be eligible for tax holiday based on the recommendation of MoEA.

**(2) Waiver of income tax on interest income earned by financial institutions through preferential lending to CSI and Co-operatives.**

- (a) It shall be granted from 1<sup>st</sup> January 2016 till 31<sup>st</sup> December 2020;
- (b) It shall be applicable to all financial institutions;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) Financial institutions must lend at preferential rate to CSIs and Co-operatives;
  - (ii) The preferential lending rate must be lower than the commercial borrowing rate;
  - (iii) The CSIs and Co-operatives availing such credit facilities must be licensed and registered with DRC;
  - (iv) The interest income should be declared separately in the books of accounts.

**(3) An additional 10% deductible expenditure for use of locally produced products**

- (a) It shall be granted from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2020;
- (b) It shall be applicable to all CSIs sourcing locally produced raw materials for manufacturing purpose;
- (c) To avail the incentives, the following condition must be fulfilled:
  - (i) CSI must be licensed and registered with DRC.

## **8. Mining Sector**

**(1) Income tax holiday of 10 years for newly established domestically sourced mineral based industries.**

- (a) To avail the incentives, the following conditions must be fulfilled:
  - (i) The mining industry must be a licensed business entity and should have commenced commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;

- (ii) The categorization of the exempt industry shall be as per the list approved by the DGM, MoEA;
- (iii) Mining operations engaged in primary extraction, quarrying, crushing unit and basic ore dressing shall not be eligible for this incentive;
- (iv) The business entity must meet the value addition condition prescribed by MoEA.

## **9. Tourism Sector**

### **(1) Income tax holiday of 10 years to newly established tourist standard hotel and 5 years to existing hotel upgraded to tourist standard hotel.**

- (a) The unit is newly established and commencing commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (b) The existing hotel is upgraded to a tourist standard hotel and commencing commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020. For the purpose of these rules, existing hotels shall mean those hotels which are not rated as standard hotel by TCB;
- (c) The income tax holiday shall be applicable on the income generated from hotel business only. Miscellaneous income and income generated from letting out some portion of the hotel building will not be eligible for exemption;
- d. For the purpose of claiming tax deductible expenditure on the assets such as land, building and other facilities, the ownership of the property must be either in the name of the license holder or in the name of his immediate family members;
- (e) To avail the incentives, the following conditions must be fulfilled:
  - (i) Tourist Standard hotel established is as per the standards and rating prescribed by the TCB;
  - (ii) There must be a certification letter from the TCB;
  - (iii) The unit should be registered as Sales Tax Collecting Agent (STCA) with the concerned RRCO;
  - (iv) Businesses conducted in hired premises shall be eligible for tax holiday.

### **(2) Income tax holiday of 5 years to Farm House and Home Stay established as hospitality unit.**

- (a) To avail the incentives, the following conditions must be fulfilled:
  - (i) The Farm House and Home Stay is registered with the TCB as hospitality unit between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;

- (ii) The commercial operation should have commenced between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (iii) There must be a certification letter from the TCB;
- (iv) Farm House and Home Stay meet the standard for hospitality unit as prescribed by the TCB.

## **10. Agriculture & RNR Sector**

### **(1) Income tax holiday of 10 years to business engaged in agriculture and RNR activities as listed under 6.2.5 of the EDP 2016 excluding forest based products.**

- (a) To avail the incentives, the following conditions must be fulfilled:
  - (i) The entity should have commenced commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (ii) It shall be effective from the date of commercial operation;
  - (iii) The business unit is licensed and approved by authorized agency and registered with DRC;
  - (iv) Integrated wood industries and existing wood based industries that upgrade to an integrated wood processing plant shall be eligible for tax holiday after certification by MoAF.

## **11. Education Sector**

### **(1) Income tax holiday of 5 years to newly established educational and vocational institute located outside Thimphu and Phuentsholing Thromde areas.**

- (a) It shall be applicable to those commencing commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (b) For the purpose of claiming tax deductible expenditure on the assets such as land, building and other facilities, the ownership of the property must be either in the name of the license holder or in the name of his immediate family members;
- (c) Educational institutes shall include privately funded local or international schools /colleges, day care centers as defined and categorized by MoE or MoLHR;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) There must be a recommendation letter from MoE/MoLHR;

- (ii) There must be a valid business license issued by authorized agency;
- (iii) Business conducted in hired premises shall be eligible for tax holiday.

**(2) Income tax holiday of 5 years to newly established music schools, games & sports school.**

- (a) To avail the incentives, the following conditions must be fulfilled:
  - (i) The business entity must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (ii) It must be a licensed business entity registered with DRC.

**12. Health Sector**

**(1) Income tax holiday of 5 years to newly established selective private health service.**

- (a) To avail the incentive, the following conditions must be fulfilled:
  - (i) The business entity must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (ii) Ministry of Health shall identify and approve selective health services for private investment;
  - (iii) There must be an approval letter from the Ministry of Health;
  - (iv) It must be a licensed business entity registered with DRC.

**13. Information and Communication Technology**

**(1) Income tax holiday of 5 years to newly established IT/ITES business.**

- (a) It shall be applicable to IT/ITES, approved by MoIC and operating from within and outside the IT park;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) The business entity must be licensed and registered with DRC;
  - (ii) The business entity must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (iii) At least 80% of the staff employed should be Bhutanese nationals throughout the tax holiday period. In the event of non-compliance to this condition, the tax holiday shall be withdrawn for the relevant year;
  - (iv) There must be a recommendation letter from MoIC.

**(2) Income tax holiday of 5 years to newly established business engaged in production of films, documentaries and serials for public broadcasting.**

- (a) It shall be applicable to those films, documentaries and serials produced during the period between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) The unit must be a licensed entity and registered with DRC;
  - (ii) There must be a recommendation letter from BICMA.

**(3) Income tax exemption of 5 years on animated films produced by newly established business.**

- (a) It shall be applicable to income earned from animated films only produced during the period between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) The unit must be a licensed entity and registered with DRC;
  - (ii) There must be a recommendation letter from BICMA.

**(4) Income tax holiday of 5 years to newly established media service providers, namely print media and broadcasting entities.**

- (a) It shall be applicable only on income from the publication of newspapers and periodicals;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) The business entity must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (ii) The unit must be incorporated under the Companies Act of Bhutan, 2016.

## **14. Transport Sector**

**(1) Incentives to the airline companies.**

- (a) The following incentives shall be available from 1<sup>st</sup> January 2016 to 31<sup>st</sup> December 2020;
- (b) Airline businesses shall be exempted from withholding TDS on the aircraft lease payments;
- (c) Withholding taxes paid by airline businesses in jurisdictions with which Bhutan does not have DTAA shall be allowed as tax deductible expenditure;

- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The unit must be a licensed business entity and registered with DRC;
  - (ii) The airline business must be incorporated under the Companies Act of Bhutan, 2016.

**(2) Income tax holiday of 5 years to taxi/car- hire service providers.**

- (a) It shall be applicable to those taxi/car-hire service providers;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) The business must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (ii) The business entity must be incorporated under the Companies Act of Bhutan, 2016.

**15. Waste Management and Recycling Industries**

**(1) Income tax holiday of 5 years to newly established waste management/ recycling entities including scrap dealers.**

- (a) To avail the incentives, the following conditions must be fulfilled:
  - (i) The business entity must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020;
  - (ii) Waste Management /recycling unit must be a licensed entity;
  - (iii) There must be a recommendation letter from NECS.

**16. Business Infrastructure Development**

**(1) Income tax holiday of 10 years to newly established infrastructure developer.**

- (a) It shall be applicable to development of infrastructure namely industrial estate, IT Park, dry port, warehousing and cold storage;
- (b) To avail the incentives, the following condition must be fulfilled:
  - (i) The developer must be a licensed business entity and registered with DRC;
  - (ii) The business entity must commence commercial operation between 1<sup>st</sup> January 2016 and 31<sup>st</sup> December 2020.



## **Part II: Indirect Tax Incentives**



## **Part II: Indirect Tax Incentives**

### **General Incentives**

#### **17. ST & CD exemption on plant and machinery**

##### **(1) ST & CD exemption on plant and machinery for manufacturing and service industry.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until the date of commercial operation or 31<sup>st</sup> December 2020, whichever is earlier, for a new industry;
- (c) Notwithstanding 17(1) (b) above, plant and machinery required for expansion, up-gradation and augmentation for both new and existing industry, duly recommended by MoEA, shall be exempted until 31<sup>st</sup> December 2020;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The importer is a licensed manufacturing or service unit;
  - (ii) The unit is registered with DRC;
  - (iii) Technical clearance and import authorization from the concerned organizations, in case of restricted items, is submitted along with the application for exemption;
- (e) Spares and accessories shall be taxable;
- (f) Category of goods for civil, electrical and plumbing works, and other materials used for installation or housing the plant and machinery including support structures, platforms, railings, laboratory and testing equipment, consumables, tools, kits, office equipment, furniture and vehicles, irrespective of the nature of business, shall not be eligible for ST & CD exemption.
- (g) Manufacturing and service industries involved in trading/resale of plant and machinery shall not be eligible for exemption.

#### **18. ST & CD exemption on permissible raw materials and primary packaging materials**

##### **(1) ST exemption on permissible raw materials and primary packaging materials for manufacturing industry.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;

- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The importer is a licensed manufacturing unit;
  - (ii) The unit is registered with DRC;
  - (iii) The raw materials and packaging materials are directly related to the manufacture of units' products specified in the license issued by authorized agency;
  - (iv) The final product meets the value addition criteria prescribed by MoEA;
  - (v) Raw materials and packaging materials are included in the list approved by DRC for a particular industry;
- (d) Category of goods used as fuel, lubricant, catalyst and any other indirect inputs, irrespective of whether it forms part of finished products or not, shall not qualify as raw materials;
- (e) Secondary packaging materials shall not be eligible for exemption.

**(2) Procedures for applying ST exemption on permissible raw materials and primary packaging material imported from India.**

- (a) The applicant should submit the following documents to the concerned RRCO:
  - (i) An application form as per the prescribed format by 31<sup>st</sup> October every year to avail exemption for the following year; and
  - (ii) A letter of undertaking as per the prescribed format affixed with legal stamp.

**(3) CD exemption on permissible raw materials and primary packaging materials for manufacturing industry.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) Manufacturing industries earn their own convertible currency through the export of their finished products manufactured from the imported raw materials;
  - (ii) CD exemption shall be provided to the extent of convertible currency earned;
  - (iii) It shall be subject to all the conditions and provisions of clause no. 18 (1) of these Rules.

**(4) Procedure for applying ST & CD exemption on permissible raw materials and primary packaging materials imported from countries other than India.**

- (a) The applicant should submit the following documents to the concerned RRCO:
- (i) An application form as per the prescribed format;
  - (ii) A letter of undertaking as per the prescribed format, affixed with legal stamp;
  - (iii) Import license/permit issued by the authorized agency;
  - (iv) List of raw materials and primary packaging materials approved for ST exemption by concerned RRCO for the relevant year;
  - (v) Certificate of Origin, issued by the authority concerned, for goods which have earned convertible currencies in order to avail CD exemption;
  - (vi) A certificate of fulfillment of value addition criteria prescribed by MoEA;
  - (vii) A copy of pro-forma invoice/bills;
  - (viii) Statement issued by recognized financial institutions confirming the receipt of the convertible currency earned from export of finished products;
  - (ix) A copy of the project documents/approval/agreement, etc if relevant.

**(5) Payment of concessional customs duty rate of 3% on permissible raw materials and primary packaging materials.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) It shall be applicable to manufacturing industries that do not earn their own convertible currency under clause no.18 (3) of these Rules to avail CD exemption on industrial raw materials and primary packaging materials;
- (d) To avail the incentives, the following conditions must be fulfilled:
- (i) Manufacturing industries must be incorporated under Companies Act of Bhutan 2016;
  - (ii) Manufacturing industries must employ at least 80% Bhutanese nationals with no less than 50 regular employees throughout the income year;
  - (iii) The number of employees should be duly certified by MoLHR;
  - (iv) Manufacturing industries that do not meet the conditions of employment shall pay the existing customs duty rate;
  - (v) It shall be subject to all the conditions and provisions of clause no.18 (1) of these Rules;
  - (vi) Manufacturing industries shall be subject to post audit, if required.

**(6) CD exemption on proprietary raw materials (concentrate/formula) for manufacturing industries.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable to manufacturing industries where franchise agreement has been approved by MoEA;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) Manufacturing industries must be incorporated under Companies Act of Bhutan 2016;
  - (ii) Manufacturing industries must export at least 80% of their finished products and earn either convertible currency or Indian rupees;
  - (iii) Manufacturing industries must employ at least 80% Bhutanese nationals with no less than 50 regular employees throughout the income year;
  - (iv) The number of employees should be duly certified by MoLHR;
  - (v) Manufacturing industries that do not meet the conditions shall pay the existing customs duty rate;
  - (vi) It shall be subject to all the conditions and provisions of clause no. 18 (1) of these Rules;
  - (vii) Manufacturing industries shall be subject to post audit, if required.

**19. ST & CD exemption for Point of Sale (PoS) machines and ATMS**

**(1) ST & CD exemption on Point of Sale (PoS) machines and ATMs for financial institutions.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) Exemption on PoS machines shall be available to all the business entities including authorized dealers of PoS machines;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The importer must be a licensed business entity registered with DRC.
  - (ii) The business must be operational at the time of application.

**20. ST & CD exemption on electronic cash register**

**(1) ST & CD exemption on electronic cash register for business entity.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;

- (c) It shall be available to all the business entities including authorized dealers of cash register;
- (d) To avail the incentive, the following conditions must be fulfilled:
  - (i) The imported must be a licensed business entity registered with DRC.
  - (ii) The business must be operational at the time of application.

## **21. ST & CD exemption on R&D equipment**

### **(1) ST & CD exemption on R&D equipment for government recommended R&D proposal.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until the date of completion of R&D project or 31<sup>st</sup> December 2020, whichever is earlier;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) It should be supported by R&D proposal duly recommended by relevant government agencies;
  - (ii) The equipment should be directly related to the R&D activities specified in the R& D proposal;
- (d) Category of goods for civil, electrical and plumbing works, and other materials used for installation or housing the equipment, including support structures, platforms, railings, spares, accessories, consumables, tools, kits, office equipment, furniture, vehicles, irrespective of the nature the R&D project, shall not be eligible for ST & CD exemption.

## **22. ST & CD exemption for promotion of games & sports**

### **(1) ST & CD exemption on games & sports equipment.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) It shall be applicable to games and sports equipment imported by:
  - (i) BOC and its federations;
  - (ii) Government agencies; and
  - (iii) Licensed business entity providing games and sports services;
- (d) Games and sports equipment meant for resale/trading purpose shall not be eligible for ST and CD exemption.

## Sector Specific Incentives

### 23. Energy Sector

#### (1) ST & CD exemption to hydroelectric projects.

- (a) It shall be effective from the date of notification of these Rules;
- (b) ST & CD exemption to hydroelectric projects undertaken through Inter-Governmental mode including the Associated Transmission Systems shall be governed by the tax exemption provisions of the Bilateral Agreement signed regarding respective hydroelectric projects;
- (c) ST & CD exemption to hydroelectric projects undertaken through other than Inter-Governmental mode including the Associated Transmission Systems shall be limited to plant and machinery, construction materials and equipment imported for direct use in the construction of project;
- (d) Unless otherwise specified, the exemption for hydroelectric projects above shall cease upon the commercial operation of the project;
- (e) To avail the incentives, the following conditions must be fulfilled:
  - (i) The concerned project authority/developer through the DHPS, MoEA shall apply to DRC,HQ for tax guidelines prior to finalization of the contract documents;
  - (ii) A copy of the project documents, license and other relevant documents should be submitted along with the application for tax guidelines.

#### (2) ST & CD exemption on specific materials for hydroelectric projects service centers.

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) It shall be applicable to welding wires/electrodes and hard coating powder used by service centers and other items reviewed by MoF from time to time;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The service center must be a licensed business entity;
  - (ii) The business entity must be registered with DRC.

#### (3) ST & CD exemption on plant & machinery for solar, wind, biogas and other renewal energy.

- (a) It shall be effective from the date of notification of these Rules;

- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) It shall be subject to all the conditions and provisions of clause no. 17 (1) of these Rules.

## **24. Cottage and Small Industries (CSI) and Co-operatives Sector**

### **(1) ST & CD exemption on plant and machinery, permissible raw materials and primary packaging materials for CSI and Co-operatives.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) Co-operatives must be those established as per the Co-operatives Act of Bhutan (Amendment) 2009;
- (d) CSI and Co-operatives must be registered with DRC;
- (e) It shall be subject to all the conditions and provisions of clause no. 17 and 18 of these Rules;
- (f) Notwithstanding clause no.18 (3) of these Rules, CD exemption shall be provided to the CSIs for purchase of raw materials/primary packaging materials without having to comply with the convertible currency earnings requirements up to USD 50,000 per annum per industry recommended by MoEA.

### **(2) ST & CD exemption for artisans and craftsmen in the rural areas.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable on raw materials, equipment and tools that promote indigenous skills;
- (c) There should be a recommendation from MoEA.

## **25. Mining Sector**

### **(1) ST & CD exemption on equipment & machineries for mining industry.**

- (a) It shall be effective from the date of notification of these Rules.
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) The list of mining equipment and machineries shall be recommended by DGM and reviewed by MoF from time to time;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The mining unit must be licensed business entity registered with DGM;

- (ii) The mining equipment and machineries should be directly related to the activity specification provided in the license;
- (e) Spares and accessories shall be taxable.

## **26. Tourism Sector**

### **(1) ST& CD exemption on buses for tour operators.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) The number of buses permitted shall be one for unincorporated business and two for incorporated companies;
- (c) For the purpose of these rules “buses” shall mean buses of at least 10-seater capacity and above;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The number of buses imported under Fiscal Incentives 2010 are at least ten years old and have not exceeded the maximum ceiling prescribed herein;
  - (ii) The tour operator has been in business for a minimum of 3 years consecutively and has handled minimum of 100 tourists in the last 2 operating years;
  - (iii) The tour operator must be registered with TCB;
  - (iv) All applications for exemption must be duly verified and recommended by TCB;
  - (v) The tour operator is registered as taxpayer with DRC and should be operational at the time of application;
  - (vi) The name of the business entity should be displayed on the vehicles;
  - (vii) If the vehicle is sold/disposed off or transferred within five years from the date of registration, the business entity shall be liable for all the taxes and duties;
  - (viii) The tour operator shall sign and submit an undertaking/agreement as per the terms and conditions provided by DRC/TCB;
  - (iv) All application for exemption must be submitted online as per the website **tax.tashel.gov.bt**.

### **(2) ST & CD exemption on camping, trekking, rafting, kayaking, boating and other outdoor or adventure recreation equipment for tour operators.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;

- (b) It shall be applicable to the list of items approved by MoF in consultation with TCB from time to time;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The tour operator must be a licensed business entity registered with TCB;
  - (ii) The tour operator is registered as taxpayer with DRC and should be operational at the time of application;
  - (iii) The tour operator has been in business for a minimum of three years consecutively and has handled minimum of 100 tourists in the last two operating years;
  - (iv) All applications for exemption must be duly verified and recommended by TCB;
  - (v) The tour operator shall sign and submit an undertaking/agreement as per the terms and conditions provided by DRC/TCB;
  - (vi) All application for exemption must be submitted online as per the website **tax.tashel.gov.bt**.

**(3) ST& CD exemption for tourist standard hotels.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable to the list of items approved by MoF in consultation with TCB from time to time;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The hotel must be a licensed business entity registered with TCB as tourist standard accommodation whether new or existing or upgrading or renovating;
  - (ii) All applications for exemption must be duly verified and recommended by TCB;
  - (iii) The hotel must be registered as sale tax collecting agent with DRC;
  - (iv) The hotel shall use computerized billing system to avail these incentives;
  - (v) The hotel concerned shall sign and submit an undertaking/agreement as per the terms and conditions provided by DRC/TCB;
  - (vi) All applications for exemptions must be submitted online as per the website **tax.tashel.gov.bt**.

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

- (a) It shall be available only to those hotels with computerized billing system;

- (b) It shall be applicable to bills/invoices generated through the computerized billing system;
- (c) It shall be subject to the fulfillment of the following conditions that the business entity:
  - (i) Issues computer generated serially numbered bills/cash memos. The copy of bills/cash memos issued to customer should maintain 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 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) Maintains all accounts, records, registers, and supporting documents available for inspection by DRC and its regional offices;
  - (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 the prescribed format on time.

## **27. Agriculture & RNR Sector**

### **(1) ST & CD exemption to Agriculture and RNR sectors.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) It shall be applicable to the list of items approved by MoF in consultation with MoAF from time to time;
- (d) All application for exemption must be recommended by the concerned Agriculture and RNR sector;
- (e) The business entity engaged in resale/trading of agriculture and RNR goods shall be taxable.

## **28. Construction Sector**

### **(1) ST & CD exemption on earth-moving, heavy lifting and drilling equipment for construction and hiring business entity.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;

- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The importer must be a licensed business entity registered with DRC;
  - (ii) The construction unit must be registered with CDB;
  - (iii) Spares and accessories shall be taxable.

**(2) ST & CD exemption on green building materials for construction industry.**

- (a) It shall be effective from the date of notification of these Rules;
- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The importer must be a licensed construction entity registered with CDB;
  - (ii) There must be a recommendation letter issued by NECS.

**29. Education Sector**

**(1) ST & CD exemption on buses for educational and vocational institutes.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) The actual number of buses, up to a maximum of 5, will be based on one bus for every 100 students enrolled;
- (c) For the purpose of these rules “buses” means buses of at least 22-seater capacity and above;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The educational institute must be either a licensed business entity or government colleges/schools/vocational institutes;
  - (ii) A copy of import authorization issued by MoF must be submitted for buses imported by government colleges/schools/vocational institutes;
  - (iii) The number of buses imported under Fiscal Incentives 2010 are at least 10 years old and have not exceeded the maximum ceiling prescribed herein;
  - (iv) The number of students enrolled should be certified by MoE/MoLHR, where applicable;
  - (v) Buses shall bear the name of the school upon import.

**(2) ST & CD exemption on specialized furniture mounted with equipment on it for laboratory use, laboratory equipment, musical instrument, games & sports equipment and teaching aid materials for educational and vocational institutes.**

- (a) It shall be effective from the date of notification of these Rules;

- (b) It shall be granted until 31<sup>st</sup> December 2020;
- (c) Consumables such as test tubes, chemicals, litmus paper, etc meant for laboratory use shall be taxable;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The educational institute must be either a licensed business entity or government colleges/schools/vocational institutes;
  - (ii) There should be a recommendation from MoE/MoLHR, where applicable.

### **30. Health Sector**

**(1) ST & CD exemption to government agencies, hospitals, selective health service for private investment and entities for indigenous & traditional medicines.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable to the following:
  - (i) Medicines & medical supplies; and
  - (ii) Equipment used for medical diagnostic, curative, rehabilitative and palliative services;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) Selective health service must be approved by MoH;
  - (ii) There should be a recommendation letter from MoH.
- (d) Goods for civil, electrical and plumbing works, office equipment, furniture and vehicles shall be taxable;
- (e) Private pharmaceutical shops and clinics involved in trading business and any other trading businesses shall not be eligible for ST and CD exemptions.

### **31. Information and Communication Technology Sector**

**(1) ST & CD exemption on computers and related hardware and software for IT-enabled service providers.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable to IT service provider such as software development entities, BPO and any other IT service providers;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) The ITES provider must be a licensed business entity recommended by MoIC;

- (ii) The business entity must be registered with DRC;
- (iii) The items should be directly related to the business activity specification provided in the license;
- (iv) It shall be declared like any other normal goods with DRC;
- (d) IT service provider engaged in resale/trading of goods including any other trading business unit shall be taxable;
- (e) Spares and accessories shall be taxable.

**(2) ST & CD exemption to IT park developer.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable to the following:
  - (i) Plant and machineries required for the development of the IT Park/ infrastructure;
  - (ii) Construction materials forming direct inputs for the IT park development; and
  - (iii) Capital goods forming direct inputs for the IT/ITES companies in the IT park such as air conditioner, fire fighting equipment , etc.;
- (c) To avail the incentives, the following conditions must be fulfilled:
  - (i) All application for exemption must be recommended by MoIC;
  - (ii) A copy of bill of quantities (BOQs) and other relevant information of the IT park shall be submitted to DRC, if required.

**(3) ST & CD exemption on specific professional equipment required by 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 2020;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) The media service provider must be a licensed business entity registered with DRC;
  - (ii) There should be a recommendation from BICMA;
  - (iii) The equipment should be directly related to the business activity specification provided in the license;
- (c) Category of goods for civil, electrical and plumbing works, and other materials used for installation or housing the equipment, including support structures, platforms, railings, laboratory and testing equipment, spares, accessories, consumables, tools, kits, office equipment, furniture, vehicles, irrespective of the nature of the business shall be taxable.

#### **(4) Exemption of 30% Sales Tax on Bhutanese cinema.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be subject to fulfillment of the following conditions that the business unit:
  - (i) is a licensed entity registered with DRC;
  - (ii) submit an application for exemptions of 30% Sales Tax to concerned RRCO (prior to screening) along with tentative date and location of screening;
  - (iii) issue printed and serially numbered tickets;
  - (iv) maintain and submit proper books of accounts as per the requirements of the Income Tax Act & Rules and amendments thereof for tax purpose.

### **32. Transport Sector**

#### **(1) ST & CD exemption for buses and trucks used by passenger transport entities.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) It shall be applicable to buses and trucks used as passenger transport entities;
- (c) For the purpose of these rules “buses” means buses of at least 22-seater capacity and above;
- (d) To avail the incentives, the following conditions must be fulfilled:
  - (i) The unit must be a licensed business entity registered with DRC;
  - (ii) There should be a recommendation from RSTA;
  - (iii) Spares and accessories shall be taxable.

### **33. Waste Management and Recycling Industry**

#### **(1) ST & CD exemption on plant and machinery for waste management/ recycling industry.**

- (a) It shall be granted until 31<sup>st</sup> December 2020;
- (b) To avail the incentives, the following conditions must be fulfilled:
  - (i) It shall be subject to all the conditions and provisions of clause 17 (1) of these Rules;
  - (ii) Plant and machinery must be directly related to the waste management and recycling activities specified in the license;
  - (iii) There should be a recommendation from NECS.

### **34. General Procedures for applying ST & CD exemption**

Unless otherwise specified in these Rules, all eligible applicants must submit the following documents to DRC, HQ for ST and CD exemption:

- (a) Application form as per the prescribed format;
- (b) A letter of undertaking as per the prescribed format, affixed with legal stamp;
- (c) A copy of pro-forma invoice/bills for the goods to be imported;
- (d) Import license/permit/technical clearance/import authorization/license issued by authorized agency, where applicable.
- (e) Project documents, agreements, justification in terms of usage of items, etc where applicable.
- (f) Any other relevant documents, if required.

### **35. General Conditions**

To avail the incentives, the following conditions shall apply in addition to the specific conditions provided under Part I & II of these Rules:

- (a) Unless otherwise specified in these Rules, all the provisions of Income Tax Act 2001, Sales Tax, Customs & Excise Act 2000, Sales Tax, Customs & Excise (Amendment) Act 2012 and the Rules thereof shall apply;
- (b) Unless otherwise specified in these Rules, entities availing tax holiday under the Fiscal Incentives 2010 shall continue to benefit for the remaining period of the tax holiday;
- (c) In case an application for tax holiday has been submitted after the expiry of Fiscal Incentives 2016, the entity eligible for tax holiday shall be provided with tax holiday for the remaining years (calculated as commercial operation date MINUS application date);
- (d) When a business entity is sold or transferred to the new owner along with all the assets and liabilities, the new entity shall be eligible to claim the remaining period of the tax holiday;
- (e) Tax holiday shall not be eligible for 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;
- (f) 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 after the expiry of the tax holiday;

- (g) Tax Clearance Certificate shall be issued to entities availing tax holiday only upon submission of annual accounts and settlement of tax dues. Entities under tax holiday are required to deduct and deposit TDS from the suppliers and employees as per the TDS rate prescribed in the Income Tax Act and Rules;
- (h) Goods exempted from ST/CD shall not be sold, transferred or re-exported;
- (i) Businesses who availed tax holiday under the Fiscal Incentives 2010 are not eligible for another tax holiday under this incentives;
- (j) Business entities are required to:
  - (i) submit the application for incentives within 31<sup>st</sup> December 2020 to avail ST and CD exemption;
  - (ii) register with the RRCO concerned within 90 days from the date of obtaining a license from the authorized government agency, if they are newly established;
  - (iii) register as Sales Tax Collecting Agent, if applicable;
  - (iv) settle outstanding taxes and duties against their name or their sister concern(s);
  - (v) apply for incentives to DRC in the prescribed format;
  - (vi) maintain proper books of accounts as per the Income Tax Rules irrespective of the size of the business;
  - (vii) submit annual tax returns and monthly TDS returns either online or manually before the due date;
  - (viii) submit monthly sales tax return either online or manually before the due date. Where sales tax return has not been submitted by the due date, the business entity shall not be eligible for any fiscal incentives under these rules until the tax returns are submitted;
  - (ix) Maintain stock register of exempted goods and other books of accounts for verification purpose;
- (k) Misuse of exemption facilities and non-compliance with the provisions of the Income Tax Act 2001, Sales Tax, Customs & Excise Act 2000, Sales Tax, Customs & Excise (Amendment) Act 2012 and Rules thereof, and the Rules and Regulations on the revised fiscal incentives prescribed herein, shall result in withdrawal of exemptions/incentives and imposition of penalties as per the laws in force.

### 36. Administrative Responsibility

- (1) The MoF in collaboration with MoEA shall ensure periodic monitoring, review and implementation of the Fiscal Incentives;
- (2) The MoF shall revise rules for effective implementation of the provisions of the Fiscal Incentives, if required.

**Note:** *The Rules and Regulations on Fiscal Incentives 2016 is available at the Ministry of Finance's website, [www.mof.gov.bt](http://www.mof.gov.bt) or DRC's website [www.drc.gov.bt](http://www.drc.gov.bt)*



RRCO, Thimphu

02-323076/323609

RRCO, Phuentsholing

05-252356/252237

RRCO, Paro

08-272832/272831

RRCO, Samtse

05-365317/365318

RRCO, Gelephu

06-251074/251078

RRCO, Samdrup Jongkhar

07-251015/251314

RRCO, Mongar

04-641489

RRCO, Bumthang

03-631790

Website: [www.mof.gov.bt](http://www.mof.gov.bt) or [www.drc.gov.bt](http://www.drc.gov.bt)

