Revised Rules & Regulations on Fiscal Incentives 2010

Department of Revenue & Customs
Ministry of Finance
Thimphu

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Table of Contents

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 *31st 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 to the DRC, HQ :

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 *31st 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/CD exemption on primary packaging materials for manufacturing industry.

a. It shall be granted until *31st 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 *31st 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 and primary packaging 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 *31st 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 *31st 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 *31st December, 2015*.

b. There should be proper authentication of import with recommendation from the RSTA.

1.6 Tax exemption on convertible currency export earnings by manufacturing units

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 *1st of Jan 2010 to 31st December 2015*.

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

a. Business entities established between 1st January 2004 to 31st December 2009 shall be eligible for Tax Holiday from 2010 onwards with the Tax Holiday ending on 31st of December 2014.

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 their 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.

i. Export earnings in convertible currency from cash crops are not eligible for the Tax Exemption

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 *1st January 2010 till 31st December 2015*, and shall be set off against the taxable income. 100% of the reinvestment allowance made should be capitalized in the books and the reinvestment allowance claimed as a deductible expenditure should be clearly reflected in the profit & loss accounts. The net book value of the asset should be the total cost of the asset minus depreciation for the year minus reinvestment allowance claimed. 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.

c. Reinvestment which is in the nature of recurrent expenditure shall not be allowed.

d. The reinvestment allowance to be claimed would be limited only on the reinvestment made on infrastructure, plant and machinery. Office furniture is not to be eligible for reinvestment allowance. 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. Although the reinvestment allowance can be claimed as a deductible expenditure upto a maximum of 25% of the reinvestment made, it is not necessary for the entity to claim the whole of the 25%. The reinvestment allowance can also be claimed upto the extent the profit for the year can offset subject to the maximum limit 25%.

e. 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.

f. *"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.

1.10 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 31st 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.

1.11 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)**
Large	30,000	50,000
Medium	20,000	40,000
Small	15,000	30,000
Cottage/ Micro	5,000	20,000

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.

1.12 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:

a. The date of establishment and commercial operation of the business must be between *1st July 2007 and 31st Dec 2009.*

b. The date of establishment and the commencement of commercial operation must be supported and evidenced by a *Tax Registration Certificate* issued by RRCO concerned.

c. It shall apply to only those existing businesses, which are covered in these Rules and provided with tax holiday.

d. Tax holiday period shall be effective from *1st Jan 2010* for the remaining period only. For e.g., if the date of establishment/commercial operation is *1st*

Jan 2008, the applicable tax holiday period will be for 8 years, that is, until *31st Dec 2017*.

e. Taxes paid, for the Income Years 2007-2009 shall not be refunded. Besides, any additional tax liability for these entities for the income years 2007-2009 arising as a result of tax assessment being conducted shall also be liable to be paid by them.

2 Specific Incentives

2.1 Cottage and Small *Industries (CSI) and Co-operat*ives

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 *1st January 2010 and 31st December 2015.*

b. It shall be effective from *the date of commercial operation*.

c. The Income Tax Holiday shall be applicable only for those CSIs involved in the production and manufacture of goods. Entities with activities of mining and quarrying shall not be eligible for Tax Holiday irrespective of the categorization of their license.

d. Co-operatives must be those established as per the Co-operatives Act, and it must be a licensed entity.

e. 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.

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

b. The Income Tax Holiday shall be applicable only for those CSIs involved in the production and manufacture of goods. Entities with activities of mining and quarrying shall not be eligible for Tax Holiday irrespective of the categorization of their license. (DRC/TAX-A&L/FI-2010/498 dt. 04/08/2011)

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 *1st Jan 2010 to 31st 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 *31st 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.

d. Scrap dealers shall also be eligible for the Tax Holiday granted under this section subject to the fulfillment of the conditions laid down.

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 *31st 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 *1st January 2010 to 31st 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.

a. It shall be granted until *31st December, 2015*.

b. Agricultural inputs which are environmentally harmful shall not be exempted.

c. Spares Parts and accessories with respect to farm machinery shall be taxable.

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 *1st January 2010 to 31st December 2015*.

c. ST & CD shall be exempted on imported construction materials forming direct inputs for IT park development till *31st 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 *1st January 2010 to 31st 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 *1st January 2010 and 31st 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 *31st 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

d. 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.

3.2.5 ST & CD exemptions on imports made by IT Park developer.

a. It shall be granted until 31st December, 2015.

b. It will apply to import of :

i. Construction materials forming direct inputs for the IT Park development;

ii. Plant & machineries required for the development of the IT Park/infrastructure; 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. *It shall be subject to fulfilment of the following conditions:*

i. All application for exemptions shall be duly certified by the project manager/authorised signatory.

ii. A copy of the Bill of Quantities (BOQs) and other relevant information of the IT Park shall be submitted to DRC, HQ, if required.

iii. All goods 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 *1st January 2010 to 31st December, 2015.*

b. High-end hotels established is as per standards and ratings prescribed by the Tourism Council of Bhutan (TCB).

3.3.2 A 15 year Income Tax Holiday for newly established high end hotels in the eastern region (Mongar, Trashi Yangtse, Lhuentse, Trashigang, Pema Gatshel & Zhemgang)

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 *1st January 2010 to 31st December, 2015.*

b. High-end hotels established is as per standards and ratings prescribed by the Tourism Council of Bhutan (TCB).

3.3.3 Reinvestment allowance of 50% 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 *31st 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).

3.3.4 The Income Tax Act has been reviewed to allow entertainment expenses up to 5% of the assessed net profit.

3.3.5 ST & CD exemption on vehicles for tour operators.

a. It shall be granted until 31st December, 2015.
b. The number of buses permitted shall not be more than two 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. For the purpose of these rules *"vehicles"* shall mean buses of 10-seater capacity and above.
d. It shall be subject to fulfillment of the following conditions:
   i. The period of incentives has expired for buses imported under previous incentives packages.
   ii. The tour operator must be registered with TCB and must be accordingly recommended by TCB.
   iii. The tour operator is registered as taxpayer with the DRC and should be operational at the time of application.
   iv. There are no outstanding taxes/dues against the tour operator including its sister concern with DRC.
   v. The name of the business entity should be displayed on the vehicles.
   vi. If the business closes down within 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.
   vii. The DRC/TCB may execute an undertaking/agreement with the concerned tour operator, where applicable for effective administration of this incentive.

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

a. It shall be granted until 31st December, 2019.
b. Equipments are solely for the purpose of adventure tourism, a list of which shall be notified by the MoF.
c. *It shall be subject to fulfillment of the following conditions:*
   i. The beneficiaries must be a tour operator registered with TCB and must be accordingly recommended by TCB.
   ii. The tour operator is registered as taxpayer with the DRC and should be operational at the time of application.
   iii. There are no outstanding taxes/dues against the tour operator including its sister concern with DRC.
   iv. The DRC/TCB may execute an undertaking/agreement with the tour operator, where applicable for effective administration of this incentive.

3.3.7 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;

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 10th 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.

3.3.8 ST & CD exemption on import of furniture & fixtures, kitchen & laundry equipment, mattresses & linens, cutlery & crockery, sanitary wares, electrical fittings (excluding wires) and other items by hotel industry.

a. It shall be granted until 31st December, 2015, for a list of items issued by the DRC and reviewed from time to time.
b. It shall be applicable to hotel upgraded to a higher standard and duly verified by TCB.
c. *It shall be subject to fulfillment of the following conditions:*

   i. The application for exemptions shall be made as per the DRC's prescribed Form justifying the quantity and usage of all items and as per the established procedures.
   ii. The hotel is registered with TCB as higher standard catering to international tourists.
   iii. The hotel is registered as taxpayer & sales tax collecting agent with the DRC and should be operational at the time of application
   iv. There are no outstanding taxes/dues against the hotel including its sister concern with DRC.
   v. The hotel shall use computerized billing system to avail these incentives.
   vi. The hotel that have availed the incentives shall operate for a minimum of 5 years upon availing exemptions and from the date of commercial operation.
   vii. The DRC/TCB may execute an undertaking/agreement with the hotel, where applicable for effective administration of this incentive.

3.3.9 Farm Houses registered with TCB as hospitality units from 1st January 2010 to 31st December 2015, shall be exempted from income tax for 6 years from the date of operation.

It shall be granted from *1st January 2010 until 31st 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.

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

It shall be granted from *1st January 2010 until 31st 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 *1st January 2010 to 31st December, 2015.*

c. Lodges/guest houses is a licensed entity.

3.3.11 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:

   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 *1st January 2010 to 31st 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 *1st Jan 2010 to 31st December 2015.*

b. It shall be subject to fulfillment and conditions prescribed by the Bhutan Information, Communications and Media Authority (BICMA). In order to be eligible for the exemption, the entity shall produce a certification letter from 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 *31st 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 31st 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 Exemption of 30% Sales Tax on Bhutanese cinema.

a. The Bhutanese Cinema shall continue to enjoy exemptions of 30% Sales Tax until such time it is otherwise notified by the Ministry of Finance.

b. *It will be subject to fulfillment of the following conditions* that the producer:

i. Submit an application for exemptions of 30% Sales Tax to DRC, HQ (prior to screening) along with the tentative date and location of screening.

ii. Issue printed and serially numbered film tickets, which are duly endorsed by concerned RRCO -based on the exemption issued by DRC,
iii. Maintain separate records of the sale proceeds as per location of the show/screening;
iv. Do not overwrite on film tickets.
v. Maintain and submit proper books of accounts as per the requirements of the Income Tax Act & Rules and amendments thereof for tax purpose.
vi. All accounts, records, registers are available for inspection by the DRC and its regional offices.

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 exemptions on green building materials.

a. It shall be granted until *31st 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 31st December 2015.
b. There is recommendation from the Road Safety and Transport Authority.
c. The bus service operator licensed and registered as taxpayer with DRC.
d. 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 *1st January 2010 to 31st 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 *1st January 2010 to 31st 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 31st 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 until 31st 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.

3.7.3 Income tax holiday for the education city developer, engaged in the establishment of the education city and related infrastructure and education promotion services.

a. The Income Tax holiday shall be applicable for licensed businesses commercially operated from *1st January 2010 onwards.*

b. *The Income Tax Holiday shall end on 31st December 2030.*

3.7.4 Income tax holiday for the educational institutes operating within the education city.

a. The Income Tax Holiday shall be for educational institutes established and operating within the education city.

b. The Income Tax Holiday shall end on the 31 of December 2030.

c. The following conditions shall also apply

i) There must be a recommendation from the Ministry of Education (MOE) & the Ministry of Labour & Human Resources (MOLHR)

ii) All formalities amd conditions as laid down by the MOE/MOLHR for the purpose must be fulfilled.

iii) There must be a valid Trade license issued by the relevant government authority.

iv) Educational institutes shall include privately funded local or international schools/colleges as defined and categorized by the MOE or MOLHR.

3.7.5 ST & CD exemptions on imports made by Education City developer.

d. *It shall be granted until 31st December, 2030 irrespective of the time of starting of the commercial operation of the business.*

e. *It will apply to import of :*

i. Construction materials forming direct inputs for the Education City development;

ii. Plant & machineries required for the development of the Education City/infrastructure; and

iii. Capital goods forming direct inputs for the businesses operating in the Education City (tenants of the Education City) such as air conditioner, fire fighting equipment, etc.

f. *It shall be subject to fulfilment of the following conditions:*

i. All application for exemptions shall be duly certified by the project manager/authorised signatory.

ii. A copy of the Bill of Quantities (BOQs) and other relevant information of the Education City shall be submitted to DRC, HQ, if required.

iii. All goods shall be declared like any other normal goods with the concerned RRCO.

3.7.6 ST&CD exemptions provided under 3.7.2 (a) shall be extended to the businesses operating in the Education City (Tenants of the Education City) until 31st December, 2030 irrespective of the time of starting of the commercial operation of the business.

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 *1st January 2010 to 31st 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 *1st January 2010 to 31st 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.

3.8.3 ST & CD exemptions on imports made by Department of Health, Ministry of Health through RGoB funding, private medical colleges, clinics and institute of traditional medicines:

a. It shall be granted until 31st December, 2015.

b. It will apply to import of :

i. Medical supplies & equipment

ii. X-Ray machines, Operation Theatre (OT) equipment, MRI, City Scan, etc as Plant and Machinery in line with definition provided in Clause No. 1.1 (d) of these Rules. Category of 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.

c. *Private pharmaceutical shops and clinics involved in trading business and any other trading businesses shall not be eligible for above exemptions.*

d. *It shall be subject to fulfilment of the following conditions:*
   i. All application for exemptions shall be duly verified by the Ministry of Health.
   ii. All goods shall be declared like any other normal goods with the concerned RRCO.

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 31st 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 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

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