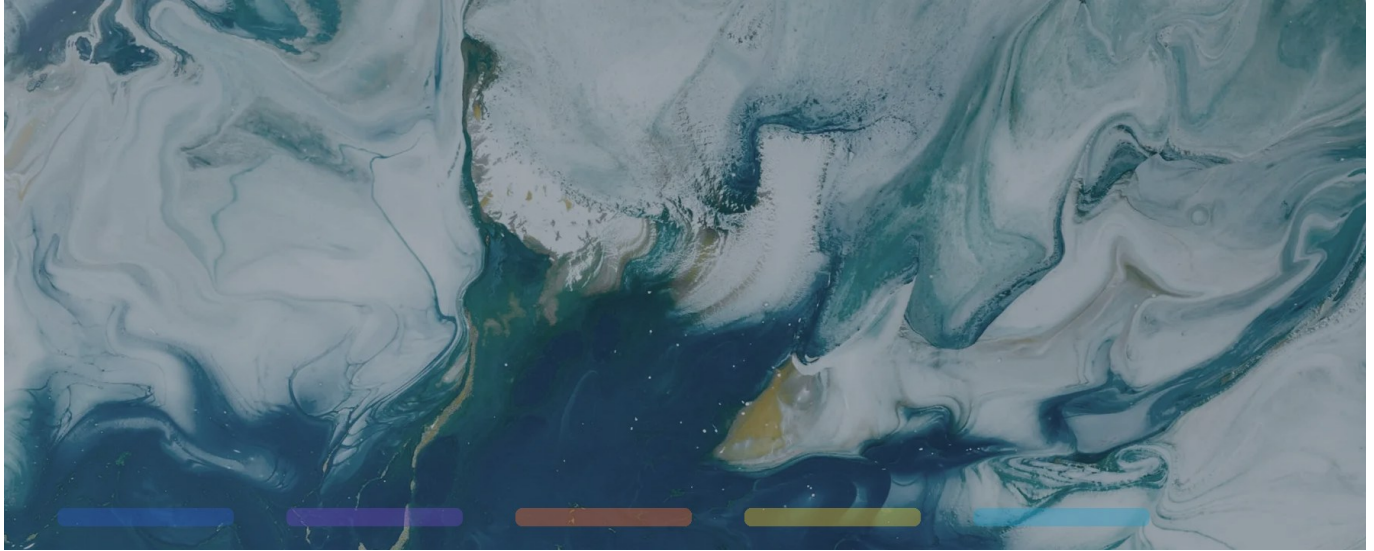




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LEGAL GUIDES

Labour Law Compliance Checklist in Nepal: A Practical Guide for Employers (2026)

A step-by-step employer compliance checklist under Nepal's Labour Act, 2074, covering hiring, remuneration, leave, termination, and more.

PUBLISHED

Sunday - May 31, 2026 (Updated: Jun 4, 2026)

COVERAGE

Employment Guide
(Hiring to Exit)

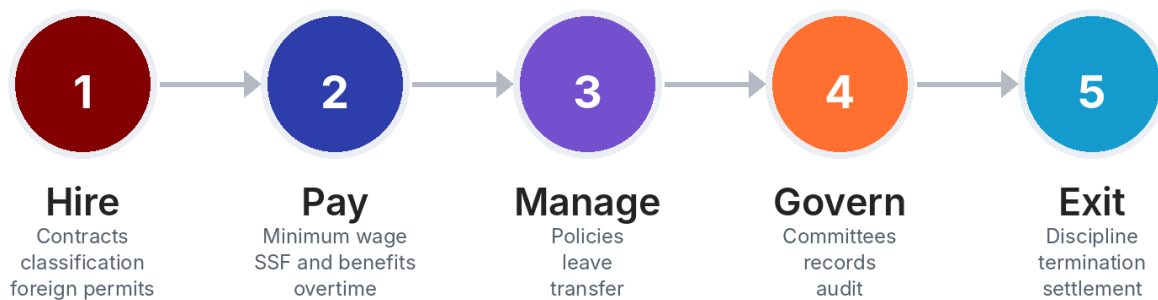


EXECUTIVE SNAPSHOT

The guide moves from hiring and contract design to payroll, social security, internal governance, annual labour audit, disciplinary action and separation. The core business message is that employment compliance should be managed through documents, payroll controls, employee records and periodic audit rather than only reacting to labour complaints or inspections.

<p>CHECKLIST COVERAGE</p> <p>14 domains</p> <p>Hiring, foreign nationals, supplied employees, transfers, HR Manual, working hours, remuneration, leave, SSF, committees, audit, lay-off/retrenchment, discipline, termination.</p>	<p>PAYROLL CONTROL</p> <p>31% SSF</p> <p>Total monthly contribution: 20% employer contribution + 11% employee contribution of basic remuneration.</p>
<p>ANNUAL COMPLIANCE</p> <p>End of Poush</p> <p>Labour audit must be completed by the end of Poush every year and retained for inspection.</p>	<p>EXIT RISK CONTROL</p> <p>15 days</p> <p>All payable dues, leave encashment, compensation and lawful amounts must be settled within 15 days of termination.</p>

KEY TAKEAWAYS FOR BUSINESS



<p>1 / DOCUMENTATION</p> <p>Contracts and classification come first</p> <p>The guide repeatedly links compliance to written employment contracts, correct employment category, HR Manual, transfer records and labour-supply agreements.</p>	<p>2 / PAYROLL</p> <p>Payroll is a legal compliance area</p> <p>Minimum remuneration, grade increment, festival allowance, deductions, overtime and social security contributions require structured payroll records.</p>
<p>3 / AUDIT READINESS</p> <p>Keep evidence before inspection</p> <p>The annual labour audit and inspection sections show why employers should retain contracts, registers, contribution proof, committee records and leave accounts.</p>	<p>4 / EXIT MANAGEMENT</p> <p>Termination needs strict process</p> <p>Poor performance, health grounds, serious misconduct, resignation, retirement and final settlement each need a proper ground, notice and documented decision.</p>

Compliance Impact Matrix

Business Area	Threshold	Possible Business Impact
Hiring & contracts	Written contract; correct employment type; probation up to 6 months	Misclassification risk; employee-file gap; dispute exposure
Working time & overtime	8 hours/day, 48 hours/week; overtime up to 4 hours/day and 24 hours/week; 1.5x basic remuneration	Payroll exposure; employee complaint risk; audit finding
Social security	31% of basic remuneration; deposit by the 15th of the following Nepali month	Contribution arrears; benefit disputes; regulatory scrutiny
Committees	10+ employees for Labour Relation and Collective Bargaining Committees; 20+ employees for Safety and Health Committee	Governance gap; weak grievance and safety record
Labour audit	End of Poush each year; produce on demand	Inspection risk; lack of evidence during Labour Office review
Termination & final settlement	Lawful ground, notice or disciplinary process; dues within 15 days	Back wages, corrective orders, compensation and litigation risk

FULL ARTICLE CONTENT

Labour Law Compliance Checklist in Nepal: A Practical Guide for Employers (2026)

Sunday - May 31, 2026 (Updated: Jun 4, 2026)

CONTEXT

Employment relation in enterprise is primarily governed by the Labour Act, 2074 (2017) (BS) (the “**Act**”), which came into force on 2074/05/19 BS (4 September 2017 AD), and the Labour Rules, 2075 (BS) (2018) (the “**Rules**”), which came into force on 2075/03/08 BS (22 June 2018 AD). The Act and Rules (the “**Labour Laws**”) generally apply to private and non-governmental entities, including companies, firms, cooperatives and associations, regardless of their legal form, objective or profit motive. However, they do not apply to the Nepal Army, Nepal Police, Armed Police Force, National Investigation Department, or civil servants, who are governed by separate laws.

This framework is further supplemented by the Contribution-Based Social Security Act, 2074 (BS) (2017), the Contribution-Based Social Security Rules, 2075 (BS) (2018), the Bonus Act, 2030 (BS) (1974 AD), and the Trade Union Act, 2049 (BS)(1992 AD) Further, certain industries and enterprises may also be subject to sector-specific laws, judicial pronouncements, and notices published in the Nepal Gazette, which may prescribe additional or alternate requirements. These laws and sources collectively regulate major employment matters, the scope of which is set out below:

Law	Scope
Labour Act, 2074 (BS)	Governs employer-employee relations in the non-governmental sector, including employment, remuneration, leave, employee conduct, occupational safety and health, and termination.
Labour Rules, 2075 (BS)	Prescribes the detailed procedures, forms, and compliance requirements for implementing the Labour Act.
Contribution-Based Social Security Act, 2074 (BS)	Governs the contribution-based social security system applicable to the non-governmental sector, including social security coverage and benefits for employees.
Contribution-Based Social Security Rules, 2075 (BS)	Prescribes the procedures and requirements for implementation of the contribution-based social security scheme.
Bonus Act, 2030 (BS)	Governs payment and distribution of bonus from net profit, including applicable bonus threshold and allocation rules.

Trade Union Act, 2049 (BS)	Prescribes the formation, operation, and rights of trade unions in the non-governmental sector.
Sector-Specific Laws / Gazette Notices	Prescribes labour-related requirements for certain industries, including those operating under special legal regimes such as Special Economic Zones.
Judicial Pronouncements	Interprets the application of labour laws through decisions of the Supreme Court of Nepal and other competent courts.

What This Checklist Covers

This Checklist covers only the principal matters under the Labour Laws and does not specifically address trade union, bonus, or contribution-related matters. Further, this Checklist covers the compliance requirements applicable to the Enterprise and businesses and not to the employees.

Further, even under the Labour Laws, this Checklist excludes some matters of compliance, such as,

- a) Complaint procedures before the Labour Office,
- b) Proceedings before the Labour Court,
- c) Strike and lockout procedures,
- d) Collective bargaining process,
- e) Occupational safety and health standards,
- f) Offences, penalties and appeal procedures.

The Minimum Standard Principle

The Labour Laws prescribe the minimum mandatory standards governing employment relations in Nepal. Accordingly, every employer is required to comply with such standards in both form and substance, and no term or practice may be adopted below the minimum standard prescribed by law. An employer may provide terms more favourable to employees through contract, policy, or collective arrangement, but may not fall below the minimum standards prescribed by law. Non-compliance may result in complaint proceedings, corrective directions or orders, payment of unpaid amounts and compensation, fines, as iterated in the Labour Laws.

Key Compliance Requirements

The principal compliance requirements under the Labour Laws are set out below.

1. Hiring and Engagement

The form and procedure of hiring depend on the nature of employment, including but not limited to regular, time-based, work-based employment, part-time and casual employment. For more information, refer [here](#). As a general rule, a written employment contract are the main compliance requirements for any engagement except for casual employment. While the procedure for engaging foreign employees is slightly different, the law does not prescribe any separate procedure for engaging any form of employment.

Compliance Area	Legal Requirement	Compliance Statement
Nature of Employment	(Act, Section 10; Rules, Rule 3) The Labour Act recognises regular, work-based, time-based, casual, and part-time employment. Classification must reflect the actual nature, duration, and hours of work.	Determine the correct employment category before hiring. Record the employment type in the appointment letter or employment contract and retain the classification basis in the employee file.
Employment Contract	(Act, Sections 11 and 12; Rules, Rule 4) Contracts must be in writing and consistent with the nature of employment. They must include remuneration, benefits, employment conditions, employment type, main duties, position, workplace, date and place of agreement, effective date, and other service conditions.	Issue a written employment contract covering all required particulars listed in the Act.
Probation	(Act, Section 13) Probation may be applied only where permitted by law and must not exceed 6 months. If employment is not ended during probation, the employment relationship continues automatically.	Clearly state the probation period in the employment contract. Ensure it does not exceed 6 months.
Internship	(Act, Sections 16 and 17) Interns may be engaged through an educational institution under an approved curriculum. They must not work beyond 8 hours per day or 48 hours per week. Interns used as regular employees may be reclassified as such.	Maintain internship agreement, curriculum, attendance record, safety record, and payment record. Do not use interns as regular employees without proper legal classification.

Compliance Area	Legal Requirement	Compliance Statement
Traineeship	(Act, Section 18) Trainee employees may be engaged for learning with training, generally not exceeding one year. They must receive minimum remuneration and applicable benefits. If retained by the same employer, probation does not apply again.	Engage trainees through proper arrangements, provide minimum legal remuneration and benefits, monitor the training period, and do not impose fresh probation if trainees are later retained as employees.
Managerial Employees	(Act, Section 171) Managerial employees include those appointed at manager level or above with authority to evaluate, supervise, control, or manage others. Separate employment conditions may be prescribed.	Classify managerial employees based on actual authority and responsibility. Maintain separate employment agreements or role descriptions covering designation, authority, duties, remuneration, benefits, confidentiality, and termination conditions.

2. Engagement of Foreign Nationals

Under Nepal's Labour Laws, engaging foreign nationals is treated as an exception, subject to strict compliance requirements. For a detailed walkthrough, see our guide to work permits for foreign nationals in Nepal [here](#)

Compliance Area	Legal Requirement	Compliance Statement
Labour Permit	<ul style="list-style-type: none"> The Employer must not employ a foreign national without first obtaining a labor permit from the Department of Labor and Occupational Safety (the "Department"). A foreign national may be employed only where the required skilled employee is not available among Nepali citizens. Except in exempted cases, including foreign-invested or foreign-assisted establishments covered by specific arrangements, an employer must not employ foreign employees exceeding 5% of the total employees required in the establishment. Except in the case of certain specified projects, the employer must, prior to applying for such permit, publish a vacancy notice for the relevant position in a national daily newspaper. Where no suitable Nepali applicant is available in response to such notice, the employer may submit an application to the Department together with the prescribed evidence and supporting documents. The Department may conduct such inquiry or verification as it considers necessary and, if satisfied, may grant permission to employ the foreign skilled employee. 	Obtain a labour permit from the Department before engaging any foreign national. Publish a vacancy notice in advance (unless legally exempt). Ensure foreign employees do not exceed 5% of total employees unless a specific legal exemption applies. For more information, refer here
Employment Conditions	(Act, Section 27) Remuneration, service conditions, and benefits of a foreign employee must be set out in a time-based or work-based agreement and must not fall below the statutory minimum.	Use a time-based or work-based contract and ensure compliance with minimum legal standards.
Language of Agreement	(Act, Section 25) The employment agreement must be in a language understood by the foreign employee, or in English.	Prepare the foreign employee agreement in English.
Contract Duration	(Act, Section 27; Rules, Rules 11-12) If no period is specified, a foreign employment agreement is valid for up to 3 years. Highly skilled technical employees may receive approval for up to 5 years.	State a clear contract duration aligned with the work permit issued by the Department.

3. Outsourced (Labour-Supply) Employees

The Labour Act permits transfer of an employee within the same establishment, from one office, branch or unit to another, provided that such transfer does not adversely affect the employee's service conditions, benefits, nature of work or work level. An employee may also be transferred from one establishment to another only with the employee's consent and with proper arrangement for continuity of service period and service-based benefits. Further, where the transfer is outside the employee's permanent residence or existing workplace, the employer must provide the prescribed transfer-related facilities. Therefore, transfer should not be treated only as an internal administrative matter but should be supported by written records and benefit continuity.

Compliance Area	Legal Requirement	Compliance Statement
Licensed Labour Supplier	(Act, Sections 58–60; Rules, Rules 27–29) Labour supply must be made through a licensed supplier.	Engage supplied employees only through a licensed labour supplier. Retain the supplier's licence copy, licence number, validity period, and permitted work category in the employment file.
Written Labour Supply Agreement	(Act, Sections 61–62; Rules, Rules 28, 31) The arrangement must state the work category, number of employees, work location, remuneration, benefits, social security, insurance, safety, and payment responsibility.	Execute a written labour supply agreement before engagement, with all obligations clearly allocated.
Minimum Remuneration and Benefits	(Act, Sections 61–62; Rules, Rule 31) Supplied employees must receive at least minimum remuneration, benefits, and legal facilities.	Verify attendance, wage sheets, overtime payment, and benefit payment before approving supplier invoices.

4. Transfer and Change in Employment Structure

The Labour Act permits internal transfer within the same establishment provided such transfer does not adversely affect the employee's service conditions, benefits, nature of work, or work level. Transfer to another establishment requires the employee's written consent and proper arrangement for service continuity.

Compliance Area	Legal Requirement	Compliance Statement
Internal Transfer	(Act, Section 109) Internal transfer must not be unfair, contrary to law, contrary to service by-laws, or result in unlawful reduction of remuneration, benefits, work level, or work nature.	Make internal transfer only for genuine business reasons. Check that the transfer does not reduce lawful remuneration, benefits, grade, work level, work nature, or service conditions.
Transfer to Another Establishment	(Act, Section 109; Rules, Rule 59) Requires written employee consent and a transfer agreement covering post, remuneration, benefits, social security, leave balance, accrued benefits, original joining date, and service continuity.	Obtain written employee consent before transfer to another establishment. Execute a written transfer agreement with the transferee, that covers post, remuneration, benefits, leave balance, accrued benefits, original joining date, and service continuity provisions.
Transfer Benefits	(Act, Section 109; Rules, Rule 60) Where an employee is transferred to a workplace outside their existing place of work or permanent residence, they are entitled to travel, transport of personal goods, accommodation support, and applicable transfer-related facilities.	Where an employee is transferred to another workplace or outside the existing place of work or permanent residence, provide applicable accommodation support, transfer-related facilities, including travel, transport of personal goods, to the transferred employee.

5. Employment Policies

The HR Manual and service by-laws govern internal employment matters such as appointment, working hours, leave, benefits, transfer, discipline and termination. The Labour Act treats labour law as the minimum standard, so internal policies cannot reduce statutory rights.

Compliance Area	Legal Requirement	Compliance Statement
HR Manual	(Act, Sections 3 and 108) The HR Manual must cover appointment, employment categories, working hours, overtime, leave, remuneration, increment, festival allowance, social security, transfer, grievance, misconduct, disciplinary action, suspension, resignation, termination, retrenchment, and final settlement. It must not provide standards lower than the Labour Act, Labour Rules, or applicable collective agreement.	Issue and maintain an updated HR Manual covering appointment, employment categories, working hours, overtime, leave, remuneration, increment, festival allowance, social security, transfer, grievance, misconduct, disciplinary action, suspension, resignation, termination, retrenchment and final settlement.
Registration and Circulation	(Act, Section 108; Rules, Schedule 10) The HR Manual must be registered with the concerned Labour Office and made available to employees.	Register the HR Manual and/or internal regulations with the Labor Office and circulate them to employees through physical copy, email, HR portal or notice board.

6. Working Hours and Overtime

Work performed beyond permitted hours is treated as overtime and must be paid at the prescribed rate. The law also requires adequate rest intervals and provides additional protections for female employees in specified circumstances.

Compliance Area	Legal Requirement	Compliance Statement
Working Hours	(Act, Section 28; Rules, Rule 16) Working hours, including a 30-minute break after every 5 continuous hours, must not exceed 8 hours per day and 48 hours per week.	Fix normal working hours at not more than 8 hours per day and 48 hours per week. Provide 30 minutes' rest after 5 continuous hours of work.
Overtime	(Act, Sections 30 and 31) Overtime may be required only up to 4 hours per day and 24 hours per week. Overtime must be paid at 1.5 times the basic remuneration. A lawful substitute facility may be agreed upon in the employment agreement instead.	Limit overtime to 4 hours per day and 24 hours per week. Pay overtime at 1.5 times basic remuneration, unless a lawful substitute is expressly stated in the employment agreement.

7. Remuneration

Employers must comply with minimum standards on remuneration and payment, including minimum remuneration, timely payment of salary, annual grade increment, and festival allowance. The minimum remuneration is revised every two years by the Ministry of Labour, Employment and Social Security upon publication in the Nepal Gazette.

Compliance Area	Legal Requirement	Compliance Statement
Minimum Remuneration	(Act, Section 34) Every employee must receive at least the government-prescribed minimum remuneration.	Pay every employee at least the latest minimum remuneration prescribed by the Government of Nepal. Review payroll whenever minimum remuneration is revised.
Payment Timeline	(Act, Section 35) Remuneration must be paid at the time specified in the employment agreement. Where no time is specified, the employer fixes the payment date. Employees engaged for less than one month must be paid within 3 days of completing work. Casual employees must be paid immediately. The payment interval must never exceed one month.	Pay remuneration within the time stated in the employment contract or fixed by the employer. Ensure that the payment interval does not exceed 1 month. Pay employees engaged for less than 1 month within 3 days of completion of work. Pay casual employees immediately after completion of work.
Annual Increment	(Act, Section 36) Upon completing one year of service, a monthly-paid employee is entitled to an annual grade increment equivalent to one-half day's basic remuneration per year. Proportionate increment applies for service less than one full year, where applicable.	Provide annual grade increment equal to one-half day's basic remuneration to every monthly-paid employee after completion of 1 year of service. For any eligible period of less than one full year, calculate the increment on a proportionate basis, where applicable.
Festival Allowance	(Act, Section 37) Festival allowance equivalent to one month's remuneration is payable annually, generally at Dashain or at another festival chosen by the employee.	Pay festival allowance equal to one month's remuneration once every year to eligible employees, generally before Dashain or before the festival chosen by the respective Employer.
Deductions	(Act, Section 38; Rules, Rule 19) Remuneration may be deducted only for legally permitted reasons: tax, social security contribution, court or authority order, absence, approved facilities, loss caused by bad faith or negligence, union fee, or advance or loan.	Make deduction only for legally permitted reasons such as tax, social security contribution, court/authority order, absence, approved facilities, loss caused by bad faith or negligence, union fee, advance or loan.

8. Holidays and Leave

The Labour Laws recognise weekly leave, public holidays, substitute leave, home leave, sick leave, maternity leave, maternity care leave, and mourning leave. The law regulates the accumulation and encashment of certain leave types and the final settlement of eligible leave at separation.

Leave Type	Entitlement	Compliance Statement
Weekly Leave	(Act, Section 40) 1 paid weekly leave day every week.	Provide 1 paid weekly leave day every week.
Public Holidays	(Act, Section 41) 13 paid public holidays per year, including May Day, for all employees. Female employees are entitled to 14 paid public holidays, including International Women Labour Day.	Provide 13 paid public holidays each year, including May Day. Provide 14 paid public holidays for female employees, including International Women Labour Day.
Substitute Leave	(Act, Section 42) Employees who work on a weekly leave day or public holiday due to continuous or unavoidable work are entitled to substitute leave.	Provide substitute leave where employees work on weekly leave or public holidays due to continuous or unavoidable work.
Home Leave	(Act, Section 43) 1 day of paid home leave for every 20 days worked (subject to statutory exceptions for educational institutions).	Provide paid home leave at 1 day for every 20 days worked.
Sick Leave	(Act, Section 44) 12 days paid sick leave per year (proportionate for service of 1 year or less). A medical certificate is required if sick leave exceeds 3 consecutive days.	Provide 12 days paid sick leave per year. Obtain a medical certificate for sick leave exceeding 3 consecutive days.
Maternity Leave	(Act, Section 45; Rules, Rules 17-18) Female employees are entitled to 14 weeks' maternity leave, with full remuneration for 60 days. Leave must start at least 2 weeks before the expected delivery and continue at least 6 weeks after delivery.	Provide 14 weeks' maternity leave. Ensure leave starts at least 2 weeks before expected delivery and continues at least 6 weeks after delivery. Pay full remuneration for 60 days, except for circumstances where such remuneration is covered by the SSF or relative benefit scheme.
Maternity Care Leave	(Act, Section 46) Male employees are entitled to 15 days' paid maternity care leave when their wife is going to deliver a child.	Provide 15 days' paid leave to eligible male employees.
Mourning Leave	(Act, Section 47) 13 days of mourning leave with full remuneration in legally covered circumstances.	Implement mourning leave policy aligned with the Act's specified circumstances.
Accumulated Leave Payment	(Act, Sections 48-49) Home leave may be accumulated up to 90 days and sick leave up to 45 days. Payment for excess accumulated leave must be made at the end of each year.	Track leave accumulation and pay for excess at year-end. Settle all eligible leave upon separation.

9. Social Security and Other Benefits

Employers must comply with the contribution-based social security framework. For a full overview of scheme-specific benefits, eligibility, see our complete legal guide to Nepal's Contribution-Based Social Security [here](#)

Compliance Area	Legal Requirement	Compliance Statement
Social Security Contributions	The total monthly contribution is 31% of basic remuneration: 20% employer contribution + 11% employee contribution. This must be deposited through the Social Security Fund (SSF) portal by the 15th of the following Nepali month.	Deduct 11% of the employee's basic remuneration and add 20% employer contribution each month. Deposit by the applicable monthly deadline.
SSF Registration and Records	Employees must be registered with the Social Security Fund. Benefits are provided under applicable schemes including medical treatment, health and maternity protection, accident and disability protection, dependent family protection, and old-age protection.	Register all eligible employees with the SSF. Maintain employee-wise SSF records.

10. Mandatory Workplace Committees

The Labour Act requires specific committees depending on the number of employees. These committees are critical for workplace governance, labour relations, safety, and dispute prevention.

Committee	Threshold	Compliance Statement
Safety and Health Committee	(Act, Section 74; Rules, Rules 34–37) Mandatory in enterprises employing 20 or more employees	Constitute a Safety and Health Committee if 20 or more employees are employed.
Labour Relation Committee	(Act, Section 111; Rules, Rule 61) Mandatory in enterprises employing 10 or more employees	Constitute a Labour Relation Committee if 10 or more employees are employed.
Collective Bargaining Committee	(Act, Section 116) Mandatory in enterprises employing 10 or more employees.	Constitute a Collective Bargaining Committee if 10 or more employees are employed.

11. Labour Audit and Inspection

A labour audit is a formal compliance review of an establishment's labour practices. It covers employment contracts, foreign employees, supplied employees, remuneration, benefits, occupational safety and health, internal regulations, and committee formation. A completed labour audit also prepares the enterprise for inspection by the Labour Office or Labour Inspector.

Compliance Area	Legal Requirement	Compliance Statement
Scope of Audit	(Act, Section 100; Rules, Rule 56) The Labour Rules require enterprises to prepare a labour audit report in the prescribed format, covering employment contracts, wages, working hours, overtime, leave, benefits, social security, insurance, labour supply, OSH, committees, and internal regulations.	Review payroll, attendance, overtime, leave, employment contracts, insurance, social security/provident fund, labor-supplier records, committee records and HR policy records during each audit.
Labour Audit Report	(Act, Section 100; Rules, Rule 56 and Schedule 10) The audit must be conducted by the end of Poush every year. While not required to be submitted routinely, it must be produced before the Labour Office or Labour Inspector when demanded or during inspection.	Complete the labour audit by the end of Poush each year. Retain the audit report and submission proof. Produce it on demand during any inspection.

12. Lay-off and Retrenchment

Lay-off is a temporary arrangement permitted in specified circumstances where an enterprise is unable to provide work for reasons beyond its control. Retrenchment is a permanent reduction in employment arising from financial difficulty, redundancy, merger, or closure, and must follow the statutory procedure. For more information, see our guide on lay-off and retrenchment rules under Nepal's Labour Act, [here](#)

Compliance Area	Legal Requirement	Compliance Statement
Grounds for Lay-off	(Act, Section 15) Lay-off may be applied only where the employer cannot continue work due to lawful and genuine circumstances such as interruption of operations, shortage of essential resources, or financial difficulty.	Apply lay-off only on lawful and genuine grounds. Document the reason in writing.
Lay-off Notice	(Act, Section 15; Rules, Rule 5) Before placing employees on lay-off, the employer must issue written notice stating the reason, expected period, and affected employees' details.	Issue written lay-off notice to affected employees and maintain individual employee notice records.

Compliance Area	Legal Requirement	Compliance Statement
Remuneration During Lay-off	(Act, Section 39; Rules, Rule 5) During lay-off, the employee must be paid 50% of their remuneration until work resumes.	Pay 50% of the employee's remuneration during the lay-off period, and clearly mention whether attendance at the workplace is required.
Grounds for Retrenchment	(Act, Section 145) Retrenchment may be carried out only on lawful grounds: financial difficulty, partial or full closure, reduction of work, merger-related excess manpower, or other valid operational reason. Prior notice must state the reason, probable date, and likely number of affected employees.	Proceed with retrenchment only after confirming lawful ground such as financial difficulty, partial or full closure, reduction of work, merger-related excess manpower or other valid operational reason and issue proper prior notice to the concerned parties.
Selection of Employees for Retrenchment	(Act, Sections 145–146) The employer must consult with the union or Labour Relation Committee on possible alternatives and selection criteria. Selection should generally consider: foreign employees first, then employees with higher disciplinary records, weaker performance, and last-appointed employees in the same work category.	Conduct consultation, prepare meeting minutes and maintain a fair selection matrix, such that consider foreign employees first, then employees with higher disciplinary records, weaker performance, and last-appointed employees in the same category of work, during retrenchment.
Final Settlement on Retrenchment	(Act, Section 145) A retrenched employee must receive one month's basic remuneration for each completed year of service (proportionate for service less than one year), unless entitled to unemployment allowance under social security law. All unpaid salary, leave encashment, and other dues must also be settled.	Check whether the retrenched employee is entitled to unemployment allowance under social security law. If not entitled, calculate and pay retrenchment compensation at one month's basic remuneration for each completed year of service, proportionately for service below one year. In all cases, calculate and pay unpaid salary, leave encashment and other lawful dues.

13. Misconduct, Disciplinary Action, and Suspension

The Labour Act classifies misconduct by seriousness. Disciplinary action must be based on a lawful ground, proper evidence, and a statutory procedure. The employee must be given at least 7 days to submit clarification. Action must be initiated within 2 months of the employer's knowledge of the misconduct and decided within 3 months of commencement.

Compliance Area	Legal Requirement	Compliance Statement
Misconduct Categories	(Act, Sections 130–134) Misconduct includes: unauthorised absence, repeated late attendance, refusal to follow lawful instructions, negligence, unlawful strike, misuse of employer property, theft, fraud, bribery, financial misappropriation, violence, breach of confidentiality, false documents, intoxication during work, or repeated misconduct.	Identify the specific act of misconduct and its classification before initiating action. Keep complaint records, attendance records, witness statements, and documentary evidence.
Disciplinary Process	(Act, Section 135) The employee must be informed of the allegation and possible punishment and must be given at least 7 days to submit clarification before punishment is imposed.	Issue a written show-cause notice stating the allegation, facts, evidence, and possible punishment. Allow at least 7 days for the employee's response.
Decision-Making Authority	(Act, Sections 135 and 137) The disciplinary decision must be made by the legally authorised person generally the chief executive or the managerial-level officer authorised under the service by-laws.	Confirm the authorised decision-maker before commencing action. Keep delegation records.
Timeline, Implementation, and Communication	(Act, Sections 137 and 138) Action must commence within 2 months of knowledge of misconduct and be decided within 3 months of commencement. The final decision must be reasoned and communicated to the employee.	Start action within 2 months. Complete the decision within 3 months. Prepare a reasoned written decision, serve it to the employee, and retain the complete disciplinary file.

14. Termination

Termination must be based on lawful grounds and strictly follow the Labour Act. For a detailed guide, see our article on employment termination procedures and laws in Nepal. Termination must be based on lawful grounds and undertaken strictly in accordance with the Labor Act. The Labor Act contemplates termination on legally recognized grounds such as serious misconduct, poor performance, bad health, or other adequate and reasonable grounds permitted by law. In the case of time-based, work-based, or contractual employment, termination ordinarily follows completion of the relevant term or work. For more information, refer [here](#)

Compliance Area	Legal Requirement	Compliance Statement
General Grounds	(Act, Sections 139–147) Termination may occur only on lawful grounds: resignation, expiry of time-based employment, completion of work-based employment, end of casual employment, poor performance, health grounds, compulsory retirement, or serious misconduct.	Identify the correct legal ground before initiating termination.
Resignation	(Act, Section 141) An employee may resign by giving notice as required in the employment agreement. If the employee fails to give required notice, the employer may deduct remuneration equivalent to the notice period.	Obtain written resignation. Verify the applicable notice period, issue an acceptance letter, complete handover, and maintain all records.
Poor Performance	(Act, Section 142) Termination for poor performance must be supported by performance evaluation and the employee's opportunity to improve or clarify.	Do not terminate for poor performance without performance evaluation records. Keep performance review, warning/improvement record, show-cause notice, clarification and final decision.
Health Grounds	(Act, Section 143) Termination on health grounds must be based on medical recommendation and a consideration of whether suitable alternative work can be provided.	Obtain medical recommendation before termination. Assess possible alternative work and keep medical report, notice and decision record.
Compulsory Retirement	(Act, Section 147) Applies upon completion of the statutory retirement age or the retirement age fixed under approved service by-laws.	Verify the applicable retirement age, issue retirement notice, complete final settlement, collect handover, and maintain all records.
Retrenchment	(Act, Section 145, 146) Retrenchment may be made only on lawful operational grounds and after notice, consultation, fair selection and payment of applicable compensation.	Follow retrenchment process separately. Keep retrenchment reason, consultation minutes, selection matrix, retrenchment notice, compensation calculation and payment records.
Notice Requirements	(Act, Section 144) Except in termination for serious misconduct, notice must be given based on length of service: 1 day (up to 4 weeks' service), 7 days (4 weeks to 1 year), 30 days (1 year or more). If notice is not given, salary equivalent to the notice period must be paid in lieu.	Except in termination for serious misconduct, notice must be given based on the worker's length of service: 1 day for service up to 4 weeks, 7 days for service from 4 weeks to 1 year, and 30 days for service of 1 year or more. If notice is not given, salary equivalent to the applicable notice period must be paid in lieu of notice.
Termination for Serious Misconduct	(Act, Sections 130–138) Permitted only where the misconduct falls within the category punishable by removal from service. The full disciplinary process must be followed: show-cause notice, 7 days for clarification, action within 2 months of knowledge, decision within 3 months of commencement.	Issue written show-cause notice stating the allegation and possible termination. Give at least 7 days for clarification. Start action within 2 months of knowledge of misconduct and complete the decision within 3 months from commencement. Review the response, prepare a reasoned decision, serve the decision to the worker, and keep the complete disciplinary file before termination.
Final Settlement	(Act, Sections 38, 52, 144, and 145) All payable salary, benefits, leave encashment, compensation, notice pay (where applicable), and other lawful dues must be settled within 15 days of termination.	Prepare final settlement within 15 days of termination. Issue an experience certificate. Pay all outstanding dues.

Conclusion: Building a Compliant Employment Framework in Nepal

Labour law compliance in Nepal is not a one-time exercise, it is an ongoing obligation that evolves with changes in the workforce, minimum remuneration revisions, regulatory updates, and judicial interpretations.

Key takeaways:

- Every employer in Nepal's private sector is bound by minimum mandatory standards under the Labour Act, 2074, these cannot be contracted away.
- Written employment contracts, registered HR manuals, and social security registration are non-negotiable baseline requirements.
- Labour audits must be completed by the end of Poush every year and the report must be available for inspection on demand.

About Infinity & Partners



Infinity Partners is a full-service law firm that provides comprehensive legal solutions tailored to meet the unique needs of our clients. With a deep understanding of Nepal's local landscape and global best practices, we specialize in commercial law, civil law, dispute resolution and legal reform.

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Disclaimer

General legal information only

This publication is intended for general information and awareness only. It does not constitute legal advice, legal opinion, or a substitute for professional advice based on specific facts and circumstances. Labour law requirements may vary depending on the nature of the enterprise, sector-specific laws, regulatory notices, contractual arrangements, internal by-laws, collective agreements, and subsequent legal developments. Readers should obtain specific legal advice before acting or refraining from acting on the basis of this publication.

Additional Readings

Reading	Description
<p>Income Tax in Nepal: Comprehensive Legal Guide 2025 (Rates, Rules and Compliance)</p> <p>https://infinitynp.com/insights/income-tax-guide-2025-rates-rules-nepal</p>	<p>Complete 2025 guide to income tax in Nepal: Updated rates & slabs for individuals/companies, deductions, withholding rules, incentives, compliance, and recent Finance Act changes.</p>

Corporate Social Responsibility (CSR) in Nepal: FAQs

<https://infinitynp.com/insights/corporate-social-responsibility-csr-in-nepal-faqs>

A comprehensive guide addressing frequently asked questions about Corporate Social Responsibility in Nepal, including legal frameworks, practical applications, and societal impacts.

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