Nepal Budget Statement 2025-26

Highlights

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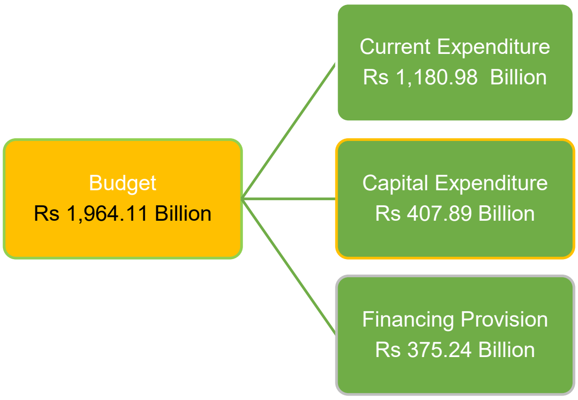
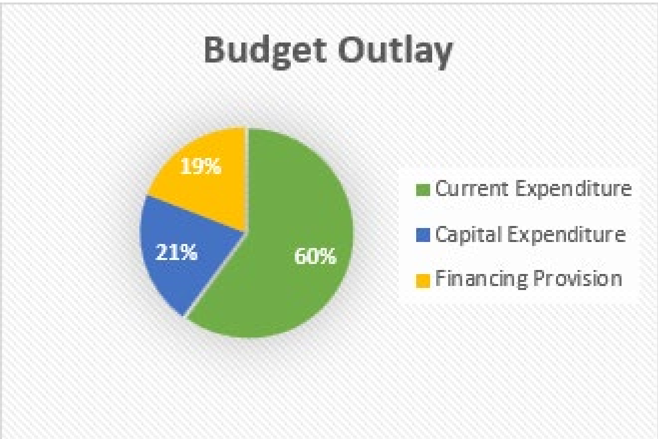
Nepal Budget Statement FY 2025-26 Highlights

On Thursday, 29 May 2025, the Honorable Finance Minister Mr. Bishnu Prasad Paudel presented the full budget for the FY 2082-83 (2025-26). The allocation of resources, priorities and significant policy statements of the budget is highlighted in this document.

1. Source and Allocation of the Budget

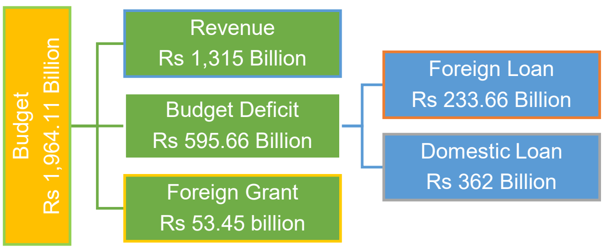
Allocation of Budget

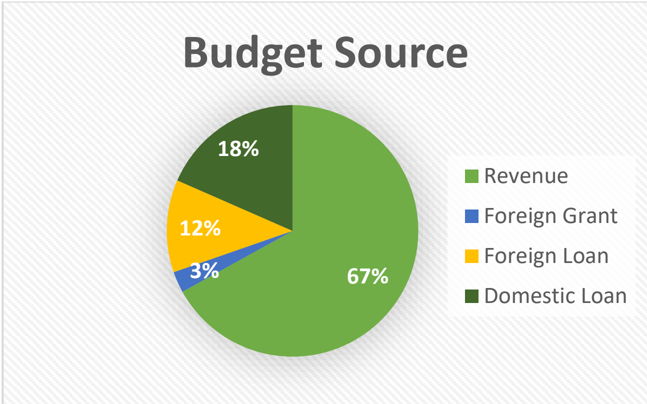




Out of the total budget, allocation towards financial transfer to provincial and local government amounts to Rs 417.83 billion

Source of Financing





2. Background of the Budget

The Constitution of Nepal, promulgated by the Constituent Assembly, has paved the way for rapid development, prosperity, social justice, and socialism based on democratic values, reflecting the national aspiration of a prosperous Nepal and a happy Nepali.

Under its guidance, Nepal achieved an unprecedented three-year average economic growth rate of 7.7 percent, marking a significant milestone in the nation's journey toward progress.

3. Objectives of the Budget

- To achieve high, sustainable, and broad-based economic growth and eradicate poverty.
- To create employment by promoting entrepreneurship and expanding public and private investment.
- To enhance economic capacity through increased use of modern technology.
- To maintain social justice through social protection and development.
- To promote quality public services and good governance.

4. Budget Priorities

- Promotion of entrepreneurship, employment, production, and productivity.
- Expansion of investment in quality and result-oriented physical infrastructure.
- Qualitative improvement in the social sector.
- Ensuring balanced development and social security.
- Citizen-friendly services, corruption control, and governance reforms.

5. Budget Allocation to Provincial and Local Governments

- Based on the recommendation of the National Natural Resources and Fiscal Commission, financial equalization grants of Rs 60.66 billion and Rs 88.97 billion are allocated to the provincial for the local levels, respectively.
- Conditional grants of Rs 30.35 billion for the provincial and Rs 211.46 billion for the local levels are allocated based on performance.
- Supplementary grants totaling Rs 3.28 billion for the provincial and Rs 10.60 billion for the local levels are set to be allocated based on performance for implementing

infrastructure projects.

- Special grants of Rs 3.7 billion and Rs 9.78 billion are allocated for the provincial and local levels, respectively, based on performance.
- Approximately Rs 165 billion will be allocated for revenue distribution at the provincial and local levels. In total, including revenue distribution and grants, Rs 582.83 billion is expected to be transferred to these levels.

6. Economic Situation

- The economic growth rate for FY 2025-26 is projected at 4.6% compared to 3.7% in the previous year.
- The balance of payments is Rs 21 billion in surplus and the foreign exchange reserves increased by USD 236 million up to 13 April 2025 (Chaitra end 2081).
- As of 13 April 2025, imports and exports increased by 12.2% and 65.2%, respectively, accompanied by a 10% rise in remittance inflows.
- As of mid-April 2025, loans of bank and financial institutions increased by 7.1% (previous year 5.8%), whereas deposits increased by 5.7%.
- Government expenses are expected to be Rs 1,662.37 billion, whereas revenue collection is expected to be Rs 1,267.39 billion during the current fiscal year.
- Government expenses are expected to be utilized as follows:

Area	Rs in Billion	% utilization
Current Expenditure	545.9	88.5
Capital Expenditure	514.4	83.4
Financial Management	602.0	97.6

7. Objectives of Revenue Policy and Program for FY 2025-26

A policy has been proposed to enhance the revenue system's productivity and transparency, while systematically managing rising public expenditure. Reforming source management is considered essential. The revenue policy and programs have been drafted to align the tax system with international standards and practices, aiming to attract foreign capital and investment. Improvements in tax administration and control over revenue leakage are necessary to make revenue collection more effective. The objectives of the revenue policy are as follows:

- Encouraging economic activities and widening the scope of taxation.
- Increasing voluntary tax participation by reforming and simplifying the tax laws from time to time.
- Developing a taxpayer-friendly, transparent, and accountable revenue system.
- Enhancing the efficiency of revenue administration and controlling revenue leakage.
- Mobilize non-tax revenue for sustainable use of natural resources and cost-effectiveness.

8. Timely Reform in the Tax System

- Laws related to Value Added Tax, Income Tax, and Excise Duty are proposed to be reviewed to address changes in the international tax system and new business models.
- A study to examine multiple rates of value added tax, their relevance, and practical use is proposed to be conducted.
- The rates of non-tax revenue are proposed to be updated by amending the relevant laws.

9. Other Important Announcements

These important announcements have been proposed in the budget speech:

- Savings up to Rs 5 lakhs in cooperatives will be insured through the Deposit and Credit Guarantee Fund. Furthermore, a seed capital has been proposed for establishing a revolving fund aimed at returning the money obtained through the auction of assets belonging to individuals who embezzled cooperative funds. The establishment of a Cooperative Debt Recovery Tribunal has also been proposed. Additionally, arrangements have been proposed for withholding the assets and passports of directors, officers, and loan defaulters associated with troubled cooperatives.
- The gold and silver jewelry export industry can use Bonded Warehouse facilities. If these industries receive at least 50% of the export price as an advance in foreign currency, they can purchase an equivalent amount of gold and silver.
- New industries to set up in special economic zones and industrial zones will be given rent exemption for the first three years. The monthly rental rate of the special economic zone is reduced from Rs 20 to Rs 5 per square meter.
- Companies engaged in the development of industrial districts/zones shall be provided with facilities similar to those provided to hydropower companies, and industries to be established in such industrial districts/zones will receive concessions comparable to those available to industries in the SEZ. A 50% discount has been proposed on the monthly rent for land in the industrial district/zone.
- Laws related to land acquisition and land ceilings will be reviewed. Arrangements will be made to allow the purchase of land exceeding the ceiling limit for purposes such as industrial enterprises, agricultural farms, and housing/apartment projects. Similarly, arrangements will be made to regularize housing and apartment projects that have already been developed with the necessary approvals but are affected due to land ceiling issues.
- Transferring the industries operating in Kathmandu Valley to industrial areas outside the valley will be encouraged to control the pollution of the valley by arrangement to provide land for free lease to such industries.
- Nepali entrepreneurs and companies will be allowed to set up sales branch or a processing factory by exporting semi-processed materials in foreign countries. For this purpose, legal provisions will be made to allow up to 25% of the national income generated from production to be

invested abroad. Of the profits earned from such businesses, 50% must be repatriated to Nepal. The final decision regarding approval of foreign investments will lie with the Investment Board.

- Legal arrangements will be made to allow Nepalese citizens to receive sweat equity for providing technology or knowledge, or services of a specific nature to foreign companies.
- The provision requiring the collection of foreign tourism fees at the rate of 5% on payments made by Nepali tourists traveling abroad has been removed. Previously, this fee was to be collected either at the time of sale of foreign travel packages or at the time of expense recognition when a firm or company sponsored a related person's foreign visit for business promotion purposes.
- Arrangements will be made to allow the operation of hedging services to attract foreign investment by managing foreign exchange risk.
- Secondary Education Examination (SEE) will be conducted by provincial governments from the upcoming fiscal year. Schools with an imbalanced teacher-to-student ratio will be merged to enhance efficiency.
- Civil servants to receive a monthly dearness allowance of Rs 5,000.
- Additional electricity of 942MW to be added next year to improve transport and energy access, bringing the total installed capacity to 4800 MW. An automated system will be developed to notify users of power outages.
- The production, distribution, and use of plastic bags thinner than 40 microns will be banned from 1 Mangsir 2082 (17 November 2025).
- Other key initiatives outlined:
  - Expansion of 4G services nationwide.
  - Launch of 5G services in Kathmandu and other major cities.
  - Development of an IT Park in Kathmandu.
  - Exploration of feasibility for a data center in the mid-hill region.
  - Creation of a film shooting studio with support from the private sector.
  - Implementation of mandatory pre-sale testing of fruits, meat, and food items to ensure quality and safety.

10. Major Changes and Amendments in the Tax System

Income Tax

- Definition of “Contribution-based Retirement Payment” under section 2(tra1) has been modified. “It refers to the amount contributed to an approved retirement fund and included in the income of a natural person, including any earnings or growth on that amount.”
- Digital PE has been quashed by removing the provision of digital PE {Section 2(KaDa)(5)} from the definition of Permanent Establishment.
- Section 4(4Kha) has been added and requires individuals eligible for presumptive tax and transaction-based tax schemes to opt for the schemes. Consequently, those without making any profit or preferring to file an ITR under form D03 can now choose not to file forms D01 and D02.
- The tax exemption granted to income from special industries operating throughout the year under Section 11(2Kha) has now been extended to include hotels, resorts, and information technology industries. Similarly, hotels and resorts also included under section 11(3) for providing tax incentive alongside earlier provision only to special industries and information technology industries.
- The exemption for industries involved in software development, data processing, cyber cafes, and digital mapping established within zoological, geological, biotech parks, or technology parks designated by the Government of Nepal through a notice in the Nepal Gazette under Section 11(3Ga) has been increased to 75% from 50%.
- The 100% tax exemption to the startups designated by the Inland Revenue Department under Section 11(3Na) has been extended for startups having a turnover up to Rs 100 million from the earlier limit of Rs 10 million.
- New section 11(3Ya) has been added to grant a full exemption from income tax for the initial five years for industries engaged in the production of green hydrogen from the date it commences operations.
- New section 11(3Ra) has been added to provide full income tax exemption for the first five years to industries engaged in the production, manufacturing, or assembly of electric vehicles charging machine from the start of their operations.
- New section 11(3La) has been added to grant full income tax exemption for the first ten years from the commencement of operations, followed by a 50% exemption for the next five years, applicable to entities that establish and operate an industrial zone or industrial village by constructing the requisite infrastructure.
- Approvals for retirement funds from various companies have been revoked through an amendment to Section 63 of the Income Tax Act. Tax deductions are now limited to contributions made to specific funds: the Employees Provident Fund (2019), Citizen Investment Trust (2047), Social Security Fund (2074), and funds under the Retirement Fund Act (2075). Payments to other company retirement funds are no longer eligible for tax deductions.
- Clarification made to Section 67(Kha) by modifying as “Obligation to be borne in Nepal” refers to a responsibility or liability arising for a resident individual from activities carried out within Nepal; earlier, all the liabilities of residents were defined as obligations to be borne in Nepal.
- The provision to collect advance tax at the customs point under section 95Ka (7) at the time of import of various living animals, edible fruits, plants, flour, wheat, sugarcane, etc., has been removed.
- Amendments made in the proviso to Section 97(3) stating that retirement payments are not required to be included in income tax return to be submitted by Natural Person having income more than Rs 4 million in addition to meeting allowance and interest income.

- New Section 117 (1) (Gha) has been added for levying fees for not submitting the income return by a natural person for any income year. The fees will be the higher amount of either:
  a) 0.1% per year on the amount calculated by subtracting the final withholding income from the assessable income, or
  b) Rs 1,200 per year, or if less than a year, Rs 100 per month.

Customs Duty

Entry fees, route permits, and other charges will no longer be levied by Nepali federal, provincial, and local authorities after customs duty is collected.

- The bank guarantee of Rs 300,000 for industrial importers obtaining the EXIM code has been repealed.
- An international price reference database will be created for accurate customs valuation, and integrated check posts will be established at major customs points to facilitate trade and enhance competitiveness.
- Proposed exemptions and rebates in customs duties, other duties and taxes for specified area :

Description	Customs Duty	Other Taxes
Import of machinery for industries producing green hydrogen.	Exempt	Exempt
Import of essential batteries and other machinery and equipment required for conservation of electricity generated from solar and wind energy	1%	Exempt
Import of necessary machinery for establishing industries that manufacture and assemble electric vehicle charging stations	1%	Exempt
Import of tunnel boring machinery by the private sector for use in road, irrigation, and hydropower projects	1%	Exempt
Import of mill machinery required for wood seasoning to promote high-quality wood and wood-based products	1%	Exempt
Import of sports materials, machines, and equipment for building football, cricket, and multipurpose stadiums	1%	Exempt
Import of organic and natural fertilizers, and machinery and equipment required for their production	Exempt	Exempt

Changes in Custom Duty Rate and Charges

- The volume-based customs duty on beverages, liquor and alcohol has been revised to the higher of volume based and percentage-based rate. The major changes are:

Description of the goods	Existing Rate per Liter (Rs)	Revised Rate
Malt-based beverages up to 5% alcohol and above 5% alcohol	200	Higher of Rs 200/Ltr or 80% of value
Sparkling wine, other wines bottled ≤ 2 liters , Other wines bottled > 2 liters but ≤ 10 liters, other wines: up to 12% alcohol	300	Higher of Rs 300/Ltr or 80% of value
Sparkling wine, other wines bottled ≤ 2 liters , Other wines bottled > 2 liters but ≤ 10 liters, other wines: above 12% up to 17% alcohol		
Sparkling wine, other wines bottled ≤ 2 liters , Other wines bottled > 2 liters but ≤ 10 liters, other wines: above 17% alcohol	300	Higher of Rs 300/Ltr or 80% of value
From a volume perspective, 80 percent consists of denatured (undrinkable) high-purity alcohol; denatured (spoiled) alcohol of any kind and other spirits	60	Higher ofRs 60/Ltr or 30% ofvalue

- The customs duty on the import of Chyang (Country Beer), Champagne, Sherry, Mead, and Perry has been doubled from the existing 40% to 80%
- Revision in Customs duty in relation to cigarettes and tobacco containing goods.

Product Description	Existing Rate (Rs) (Per 1,000 sticks)	Revised Rate (Rs) (Per 1,000 sticks)
Cigarettes with tobacco (including cigarillo)	9,000	11,000
Filterless cigarette	4,500	5,500
With filter: ≤ 70 mm length	4,500	5,500
Length > 70 mm and ≤ 75 mm		
Length > 75 mm ≤85 mm		
Length > 85 mm		
Prepared bidi	4,500	5,500
All types of cigars	9,000	11,000
Others		

- Revision of customs duty on import of scented areca nuts without tobacco to Rs 40/ Kg from Rs 25/kg.
- Customs duty has increased from 5% to 20% to import electronic cigarettes and similar personal electronic equipment (Vapes) used for Vaporizing,
- Customs duty @10% to be charged on import of parts of electronic equipment (Vapes) used for Vaporizing, previously exempt from customs duties.
- Revisions in the custom rates applicable on the sugar items have been reduced by 50% (Existing rate is 30%) and now the applicable customs duty on Beet sugar

(1701.12.00), Sakhhar (Molasses and Millies), Gudgatha (1701.13.10), Khandasari sugar(1701.13.20), others (1701.13.90) and Sakhhar (Molasses and Millies), Gudgatha (1701.14.10), Khandasari sugar(1701.14.20), containing added flavoring or coloring matter (1701.91.00), sugar candy (1701.99.10) sugar cube (1701.99.20) and other (1701.19.90) is 15%.

Excise Duty

- The definition of "Madira (Alcohol Beverages)" under Section 2(o1) has been updated with the inclusion of Malton, Shake, Soju, Vermouth, and alcohol mixed ready-to-drink beverages.
- Section 9(1) clarifies that excise duty licenses are not required for importing goods under diplomatic facilities with a recommendation from the MOFA or for exporting, selling, or storing goods (except tobacco) under the self-removal system.
- Section 12(5) has been repealed and replaced with a new provision stating that utensils, containers, vessels, tools, machinery, equipment, and motor vehicles involved directly or indirectly in an offense under the Excise Act may be seized by the excise officer.

Major changes in Excise Duty rates:

Changes in excise duty rates of Alcohol

Description of Goods	Existing	Revised Rate	
	Rs per Ltr	Rs Per Liter	Rs Per LP Ltr
Alcohol quantity up to 15 U.P.	1,860	1,860	2,188
Up to 25 UP	1,390	1,390	1,853
Up to 30 UP	1,290	1,290	1,843
Others	1,860	1,860	2,188

Changes in Cigarette

Description of Goods	Existing Rate (Rs)	Revised Rate (Rs)
Without filter	755/m	778/m
With filter: ≤ 70 mm length	1,740/m	1,792/m
Length > 70 mm and ≤ 75 mm	2,370/m	2,441/m
Length > 75 mm ≤85 mm	3,060/m	3,213/m
Length > 85 mm	4,200/m	4,410/m

Other Changes

Description of Goods	Existing Rate	Revised Rate
Lead Acid	10%	15%
Power Bank	10%	15%
Brake lining and Clutch Pads	5%	10%
Asbestos-cement	5%	10%
Bricks and Block	5%	10%
Boards made by mixing wood dust, cement, and various binding chemicals.	5%	10%

Value Added Tax

- The VAT rate of 13% remains unchanged.
- The term "Advertisement Service" has been removed from the definition of Digital Service under Section 2(Ta2) and replaced with the following, to provide further clarification regarding advertisement services delivered through online or electronic means:
  - Paid personal promotional service
  - Targeted online advertisement service

  Explanation:
  For the purpose of this section, "targeted online advertisement" refers to any form of communication made through digital interfaces by a user (either directly or indirectly) to promote a specific product, service, or brand by delivering content, messages, or advertisements based on the preferences, behaviors, or characteristics of the recipient. This includes advertisements disseminated through digital interfaces (such as digital platforms, websites, applications, or similar media) and is considered a form of electronic service.
- The provision previously outlined in Section 17(8) of the VAT Act, which authorized the publication of the name of a taxpayer failing to file tax returns for six consecutive months, as well as the suspension of any VAT credit/deduction and the taxpayer's registration, has now been moved to Section 30, titled "Suspension of Transactions".
- A new provision has been added in Section 25(1Ga), which states that if a taxpayer deposits an amount under Section 31(Ka6) during an administrative review and the final decision by the court for revised tax assessment leads to a reduced tax liability, then any excess amount deposited by the taxpayer shall be refunded upon request.
- A new provision for a fine has been added under Section 29 of the VAT Act, which provides that if any person is found conducting business without certifying a branch or warehouse, a fine of Rs 10,000 shall be imposed for each instance.
- The Finance Bill, 2082 has introduced changes in Schedule 1 of the VAT Act, 2052 by removing and adding distinct items (goods and services) to make them VAT-able and VAT-exempt.

  Some of the goods and services on which VAT shall now be applicable are:
  - Diesel exhaust fluid fertilizer
  - Ayurvedic preparations Ashokarishta, Dashmularishta, Sundarikalpa
  - Rough or unmounted worked diamonds, precious and semi-precious stones (such as rubies, sapphires, and emeralds) and their dust or powder.

  The following goods and services have been included in Schedule 1 of the VAT Act, under which VAT shall no longer be levied on these items:
  - Fresh, chilled, or frozen meat (including edible premium meat) of poultry
  - Churpi (traditional hard cheese)
  - Orthopedic equipment hearing aids excluding parts and accessories
  - Selected items of Vitamins

- Rudrakshya Dana
- Machinery used production of organic and natural manure
- Clearing house service
- Few sub-categories of solar devices & equipment
- Equipment, tools and construction materials required for the development of industrial area/village qualify for VAT exemption with an Investment Board recommendation and a detailed engineering design.
- Import of material required for the production or assembly of electric vehicle (EV) charging machinery, as per the recommendation of the Ministry of Industry.
- Import of mills and machinery used in wood and wooden product processing industries, as recommended by the Ministry of Industry.
- Import of machinery, equipment, tools, and devices required for the construction of infrastructure for football, cricket, and multipurpose stadiums, based on the recommendation of the Ministry of Youth and Sports.
- Import of machinery, equipment, tools, and devices necessary for the production of green hydrogen, based on the recommendation of the Ministry of Energy, Water Resources, and Irrigation.

☐ The Finance Bill, 2082, has also added the following items to Schedule 2 of the VAT Act, making them zero-rated supplies for VAT purposes:

- Supply of machinery, equipment, parts, and tools by local industry, upon the recommendation of the Department of Industry, if used in the production of organic and natural manure.
- Supply of machinery, equipment, parts, and tools by local industry, on the recommendation of the Investment Board, if used for the establishment of an industrial area or industrial village.

Major Amnesty announced in Finance Bill, 2082 (2025)

a) *Special Provision Regarding the Transfer of Contribution-Based Retirement Funds:*

Retirement funds currently operating as approved retirement funds under the Income Tax Act, 2058 must be mandatorily transferred to or aligned with the retirement funds established under the following laws by the Ashad end 2083 (i.e., mid-July 2026): the Employees Provident Fund Act, 2019 (BS); the Citizen Investment Trust Act, 2047; the Social Security Fund Act, 2074; and the Retirement Fund Act, 2075.

As per sub-section (1), if a contributor transfers the lump-sum amount of their contribution-based retirement fund from an approved fund to the designated fund within the specified period, such transferred amount shall not be subject to withholding tax under the Income Tax Act, 2058.

b) *Special Provision Regarding Deduction of Transport Rental Expense*

If a transport service provider rented a vehicle from a natural person without a PAN for business purposes during fiscal years 2078/79, 2079/80, or 2080/81, and advance tax was deducted at source in accordance with Section 88(1)(ga) of the Income Tax Act, 2058, the rental payment shall still be allowed as a deductible expense when calculating taxable income for the respective year, even in the absence of a PAN invoice.

c) *Waiver of Penalty, Additional Fees, and Interest for Social Institutions*

Community hospitals, health institutions, or transport-related institutions registered under the Associations Registration Act, 2034 (1977) will be entitled to waiver of interest, fees and penalties, and additional charges if tax assessment or reassessment has been done (before 2082 Jestha 15 i.e. 28 May 2025) under the VAT Act, 2052, Income Tax Act, 2058, or annual Financial Acts and the assessed taxes are paid by the end of Poush 2082 (14 January 2026).

d) *Waiver of VAT Penalty, Additional Fees.*

If the registered taxpayer has not filed VAT returns and deposited tax due up to Chaitra 2081, files returns and deposits VAT and 25% of the interest amount by the end of Poush 2082 (14January 2026), the fines, additional charges and the remaining interest will be waived.

Even if VAT returns for transactions up to Chaitra 2081 were filed but tax remains unpaid, paying the due tax and 25% of interest by the end of Poush 2082 (14January 2026) will result in the waiver of remaining penalties and interest.

e) *Waiver of Excise Duty Penalty and Late Fee*

If a license holder with excise duty liabilities up to Chaitra 2081 files due returns, pays the due excise amount and 50% of the late fee by end of Poush 2082 (mid-January 2026), it shall receive a waiver on penalties and remaining late fees under the Excise Act, 2058.

Even if the excise return was filed (up to Chaitra 2081) but payment of excise duty remained, paying the due amount along with 50% of late fee by Poush 2082 (Mid-January 2026) will result in the waiver of penalties and balance late fees.

f) *VAT Exemption for International Aviation Service Providers and Ticket Sellers*

International air service providers who have not registered under the VAT Act, now register and file returns and pay applicable VAT amount (whether collected or not) for transaction from Kartik 1, 2080 (18 October 2023), by end of Ashwin 2082 (16 October 2025) will be exempt from interest, penalties, and fees.

Air ticket sellers, whether registered for VAT or not, will be exempt from paying VAT, interest, penalty, or fees for transactions from Kartik 1, 2080 (18 Oct 2023) if returns are filed and VAT is paid by Ashwin 2082 (16 October 2025). Also, they will receive full waiver for dues before Kartik 1, 2080 (18 October 2023).

Exemption to taxpayers who have been assessed for not submitting Income Tax Return (ITR)

If an individual who has not submitted an income tax return (ITR) for any year was previously assessed for tax by the relevant tax office under Section 101 of the Income Tax Act, 2058, and subsequently submits the ITR and pays the applicable tax amount—or even if the ITR is yet to be submitted—that individual may still file the ITR and pay the corresponding tax by the end of Poush 2082 (14 January 2026).

For ITRs submitted or to be submitted under this provision, the relevant tax office may reassess the tax before the end of Ashad 2083 (mid-July 2026) and determine the revised tax liability. The limitation periods specified in Section 20(4) of the VAT Act, 2052 and Section 101(3) of the Income Tax Act, 2058, shall not be applicable during this reassessment process. Unless a new reassessment is carried out, the previous reassessment order shall remain unenforced.

g) Waiver of Interest and Fees on Income Tax for Change in Control (Section 57)

If tax reassessment was done under Section 57(1) of the Income Tax Act due to changes in ownership from a Nepali resident entity to another Nepali resident entity, then paying the assessed tax by Ashad end 2082 (16 July 2025) will result in waiver of applicable interest and fees.

h) Waiver on Income Tax of public or private vehicles

For de-registration of public or private vehicles that are over 20 years old or no longer operational, if the taxpayer declares and submits income tax for FY 2081/82 and 2082/83 by end of Poush 2082, then income tax and interest before FY 2081/82 will be waived.

right people
right size
right solutions

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