



Nepal Budget Statement FY 2025-26

On **29 May 2025**, Finance Minister **Mr. Bishnu Prasad Paudel** presented the full budget for FY 2082-83 (2025-26). This document highlights the allocation of resources, priorities, and significant policy statements of the budget.

Budget Allocation & Sources

Budget Outlay — Rs 1,964.11 Billion

Current Expenditure

Rs 1,180.98B — **60%**

Capital Expenditure

Rs 407.89B — **21%**

Financing Provision

Rs 375.24B — **19%**

Financial transfer to provincial & local governments: **Rs 417.83 billion**

Sources of Financing

Revenue

Rs 1,315B — **67%**

Domestic Loan

Rs 362B — **18%**

Foreign Loan

Rs 233.66B — **12%**

Foreign Grant

Rs 53.45B — **3%**

Budget Deficit: **Rs 595.66 billion**

Background, Objectives & Priorities

Background

Nepal's Constitution has paved the way for rapid development, prosperity, and social justice. Under its guidance, Nepal achieved an average economic growth rate of **7.7%** over three years.

Objectives

- Achieve high, sustainable, broad-based growth and eradicate poverty
- Create employment through entrepreneurship and investment
- Enhance economic capacity via modern technology
- Maintain social justice and quality public services

Budget Priorities

→ Entrepreneurship & Employment

Promote production, productivity, and investment

→ Physical Infrastructure

Quality, result-oriented capital investment

→ Social Sector

Qualitative improvement and balanced development

→ Good Governance

Citizen-friendly services and corruption control



Economic Situation & Fiscal Performance

4.6%

Growth Rate FY 2025-26

Projected, up from 3.7% previous year

65.2%

Export Growth

As of 13 April 2025; imports up 12.2%

10%

Remittance Rise

Inflow growth up to mid-April 2025

7.1%

Loan Growth

Bank & financial institution loans; deposits up 5.7%

Government expenses are expected at **Rs 1,662.37 billion** vs. revenue collection of **Rs 1,267.39 billion**. Expenditure utilization: Current 88.5%, Capital 83.4%, Financial Management 97.6%. Balance of payments is in surplus at **Rs 21 billion**, with foreign exchange reserves up **USD 236 million**.

Provincial & Local Government Allocations

Equalization Grants

Rs 60.66B (provincial) + Rs 88.97B (local)

Conditional Grants

Rs 30.35B (provincial) + Rs 211.46B (local), performance-based

Supplementary Grants

Rs 3.28B (provincial) + Rs 10.60B (local) for infrastructure

Special Grants

Rs 3.7B (provincial) + Rs 9.78B (local), performance-based

i Approximately **Rs 165 billion** for revenue distribution at provincial and local levels. Total transfer including grants: **Rs 582.83 billion**.



Revenue Policy & Tax System Reforms

Revenue Policy Objectives

01

Widen Tax Scope

Encourage economic activities and broaden taxation base

02

Voluntary Compliance

Simplify tax laws to increase voluntary participation

03

Transparent System

Taxpayer-friendly, accountable revenue administration

04

Plug Leakages

Enhance efficiency and control revenue leakage

Timely Tax System Reforms

- VAT, Income Tax, and Excise Duty laws to be reviewed for international alignment and new business models
- Study on multiple VAT rates, their relevance and practical use, to be conducted
- Non-tax revenue rates to be updated by amending relevant laws
- International price reference database for customs valuation to be created
- Integrated check posts at major customs points to facilitate trade

Income Tax & Customs Duty Changes

Key Income Tax Amendments

- Hotels, resorts & IT industries added to **Section 11(2Kha)** tax exemption for special industries
- Software/data processing park exemption increased to **75%** (from 50%)
- Startup 100% exemption extended to turnover up to **Rs 100 million** (from Rs 10M)
- **Full 5-year exemption** for green hydrogen and EV charging machine manufacturers
- **10-year full + 5-year 50% exemption** for industrial zone/village developers
- Tax deductions limited to EPF, CIT, SSF, and Retirement Fund Act 2075 contributions only
- Digital PE provision removed; new fees for non-filing of income returns introduced

Customs Duty Highlights

- Beverages & alcohol: revised to **higher of volume-based or percentage-based** rate
- Chyang, Champagne, Sherry, Mead, Perry: customs duty **doubled to 80%**
- Cigarettes (with/without filter): customs duty raised from **Rs 4,500–9,000 to Rs 5,500–11,000** per 1,000 sticks
- Electronic cigarettes (Vapes): duty increased from **5% to 20%**
- Sugar items: customs duty **reduced by 50%** to 15%
- Green hydrogen machinery, organic fertilizer machinery: **fully exempt**
- EV charging, tunnel boring, stadium equipment: **1% duty**

VAT & Excise Duty Changes

VAT Updates (Rate: 13% unchanged)

- "Advertisement Service" replaced with **Paid Personal Promotional Service** and **Targeted Online Advertisement Service** in digital service definition
- New fine of **Rs 10,000** per instance for operating without certifying a branch/warehouse
- **Newly VAT-applicable:** Diesel exhaust fluid fertilizer, Ayurvedic preparations, rough/unmounted diamonds & precious stones
- **Newly VAT-exempt:** Fresh/frozen poultry meat, Churpi, orthopedic/hearing aids, selected vitamins, Rudrakshya Dana, clearing house services, solar devices, EV charging machinery imports
- **Zero-rated:** Local supply of organic manure machinery and industrial zone equipment (on recommendation)

Excise Duty Changes

- Definition of "Madira" expanded to include **Malton, Shake, Soju, Vermouth**, and ready-to-drink alcohol beverages
- Excise licenses not required for diplomatic imports or exports under self-removal system (except tobacco)
- Alcohol excise: revised to **per LP liter basis** (e.g., up to 15 UP: Rs 2,188/LP ltr)
- Cigarette excise increased across all categories (e.g., filter ≤ 70 mm: **Rs 1,740 \rightarrow Rs 1,792/m**)
- Lead Acid & Power Bank: **10% \rightarrow 15%**; Brake lining, Asbestos-cement, Bricks: **5% \rightarrow 10%**

Major Amnesty Provisions — Finance Bill 2082

Retirement Fund Transfer

Approved retirement funds must transfer to EPF, CIT, SSF, or Retirement Fund Act 2075 by **mid-July 2026**. Lump-sum transfers within the deadline are exempt from withholding tax.

VAT Amnesty

Taxpayers with unfiled VAT returns up to Chaitra 2081 who file and pay VAT + **25% of interest** by end of Poush 2082 (14 Jan 2026) receive full waiver of fines and remaining interest.

Excise Duty Amnesty

License holders paying due excise + **50% of late fee** by Poush 2082 (mid-Jan 2026) receive waiver on penalties and remaining late fees.

Social Institutions Waiver

Community hospitals and transport institutions assessed before 28 May 2025 receive full waiver of interest, fees, and penalties if assessed taxes are paid by **14 January 2026**.

Aviation & ITR Amnesty

International air service providers and ticket sellers registering and paying VAT by **16 October 2025** are exempt from interest and penalties. Non-ITR filers may submit returns and pay tax by Poush 2082 for reassessment relief.

Vehicle & Section 57 Waivers

Vehicles over 20 years old: income tax and interest before FY 2081/82 waived on declaration. Section 57 ownership-change reassessments: interest waived if tax paid by **16 July 2025**.

Key Policy Announcements & Takeaways

Notable Policy Initiatives

- Cooperative savings up to **Rs 5 lakhs** insured; Cooperative Debt Recovery Tribunal proposed
- SEZ new industries: **3-year rent exemption**; monthly rate reduced from Rs 20 to **Rs 5/sq.m**
- Nepali entrepreneurs allowed to invest up to **25% of national income** abroad; 50% profits must be repatriated
- Plastic bags thinner than 40 microns **banned from 17 November 2025**
- Civil servants: monthly dearness allowance of **Rs 5,000**
- Additional **942 MW** electricity; total installed capacity to reach **4,800 MW**
- SEE exams to be conducted by **provincial governments** from next fiscal year

Digital & Infrastructure

4G & 5G Expansion

4G nationwide; 5G launched in Kathmandu and major cities

IT Park & Data Center


IT Park in Kathmandu; feasibility study for mid-hill data center

Film Studio

Film shooting studio with private sector support

Food Safety

Mandatory pre-sale testing of fruits, meat, and food items

 **Disclaimer:** This publication is compiled by A.P. & Associates, Chartered Accountants. for informational purposes only. No responsibility is accepted for actions taken based on this content. Seek qualified professional advice for specific circumstances.