**Wealth Taxation in Nepal: Scope and Limitation**

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Nepal has plunged into recession.[[1]](#footnote-1) The impact of economic distress is disproportionately borne by the people in low-income strata. While Nepal has been able to reduce the poverty headcount, a study by the World Bank (2016)[[2]](#footnote-2) shows that a significant proportion of those who have escaped poverty are vulnerable to fall into poverty again. According to the study, for every two persons who escape poverty, one person slides back to poverty – the proportion of such vulnerable population is 45%. Moreover, the National Planning Commission estimated that additional 1.2 million people have been pushed below poverty line due to the COVID-19 pandemic.[[3]](#footnote-3) Likewise, rising inequality has further exacerbated the impact of the economic stagnation on the vulnerable population. The information provided by Nepal Rastra Bank and Inland Revenue Department shows that the income of less than 1% people is worth the income of more than 90% people.[[4]](#footnote-4) It is estimated that around 600 people associated with 100 Group of Companies have control over the entire economy of Nepal.[[5]](#footnote-5) Moreover, wealth concentration among a few has become more severe than income inequality. The richest 10% of Nepal’s population have more than 26 times the wealth of the poorest 40%.[[6]](#footnote-6)

The government has not been able to meet the revenue target as laid out in the planned annual budget. The domestic revenues collected are mostly spent on salaries and day-to-day operations of the government, with loans and grants required to finance any long-term infrastructural projects. The debt-to-GDP ratio has hit a historic high at 41.38 per cent of GDP (out of which 21.64 per cent is the external debt)[[7]](#footnote-7), and debt servicing expenses consume a large proportion of government expenditure, leaving out little for the investment in productive sectors that could have multiplier effect. Even the climate funds for adaptation and mitigation efforts to address the disproportionate impact of climate change, caused by emissions largely from the countries in the Global North, are being received in the form of climate loans, which is exacerbating the debt-servicing obligations.[[8]](#footnote-8) Amidst such financial constraint, the mainstream narrative is that the state cannot afford to universalise public service provisioning due to limited revenue, and efforts have largely shifted towards targeted and contribution-based schemes, followed by withdrawal of subsidies in agriculture.[[9]](#footnote-9)

In the midst of multiple crises that Nepal faces, there is a pressing need to improve domestic revenue mobilisation. This can be achieved by enhancing tax systems and administration, strengthening enforcement mechanisms, reducing tax evasion and avoidance, making taxation more progressive, and broadening the tax base to include sectors of the economy that were previously untaxed, including wealth and corporate windfall gains. Yet, the bright side observed in terms of high tax-to-GDP ratio downplays the twin problems of ‘revenue deficit’ and ‘anti-poor element’ in Nepal’s budgetary system. The indirect tax dominates the revenue collection. Regressive taxation system continues to perpetuate gender inequality in Nepal as it is women who are disproportionately affected because of the pattern of labour force participation, earning, and asset and property ownership, which are skewed against women. The overall burden of imposition of regressive taxation policy, that mainly includes levying high flat VAT rate on goods and services of common use, affects women more than men.

In terms of wealth taxation, land taxes, commonly called *malpot* and *bhumi kar,* were being levied since early in the history of Nepal. Historically, such taxation was highly regressive – large landowners were provided with tax-free lands while the peasants, who actually cultivate the land and feed the country, used to be taxed the highest. Since FY1959/1960, the central government has been collecting “house and land tax” or “unified house and land tax”, which since FY 2000/2001, is being collected by the local government. This tax is imposed on the value of the real estate. While *malpot* and *bhumi* *kar* are a few hundred Nepali rupees, the “house and land tax” apply in proportionate to the valuation of the assets.[[10]](#footnote-10)The underlying problem is that the valuation of assets by the government, especially in cities, is much less than the market value.[[11]](#footnote-11) Likewise, 10 per cent tax is levied on house rents which suffers from the same problem of underreporting and undervaluation.[[12]](#footnote-12)

In Nepal, there is, however, no provision of progressive net wealth tax – levied on an individual’s total wealth (including assets such as property, investments, cash, and other valuable assets) minus liabilities or debts owed.[[13]](#footnote-13) Similarly, registration fee is imposed during inheritance or transfer of ownership, but inheritance of property till three generations does not require any tax payment.[[14]](#footnote-14) Progressive forms of taxation, such as net wealth tax, corporate windfall tax, and inheritance tax are found to have huge revenue potential[[15]](#footnote-15), but they are not yet introduced in Nepal.

The World Social Forum 2024 (WSF2024) will take place in Kathmandu, Nepal from 15-19 February 2024. The WSF serves as an open space and platform for convergence of a diverse range of participants, including social movements led by labor, peasants, civil society groups, marginalized communities, and those affected by the impacts of neoliberal capitalism and privatization. Capitalizing on this important gathering, **LDC Watch and SAAPE, in partnership with APMDD, TAFJA, TAFJA Nepal and Rural Reconstruction Nepal, plan to organize a consultation titled “Wealth Taxation in Nepal: Scope and Limitation” on 18 February 2023.** One of the premier **objectives of the consultation is to foster meaningful discussions among civil society members, parliamentarians and relevant stakeholders to deepen understanding of the net wealth taxation and its potential in raising revenue for public services as well as reducing economic inequality**. The aim is to **increase collaborative efforts and knowledge-sharing among the stakeholders, including parliamentarians, to develop effective policies and strategies that tackle economic inequality through progressive wealth taxation**. The forum also aims to **produce a set of policy recommendations that address the dual issues of economic inequality and progressive taxation, which can be shared with national/local governments and other stakeholders**.

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