

I. COUNTRY REFORM PROGRESS

Nepal has taken important initial steps in tax policy reform and domestic revenue mobilization, through the publication of its inaugural comprehensive tax expenditures (TE) report. This report details the fiscal costs of TEs in aggregate as well as by major taxes and identifies key areas for future reform initiatives. The in-house capacity and expertise developed during this process will also be invaluable to tax policymaking in the long term.

II. PROJECT DELIVERY HIGHLIGHTS

Revenue Module I – Tax Policy
Key Progress in FY26: The IMF-supported Extended Credit Facility (ECF) program has benefited directly from capacity development (CD), notably through formulation and successful completion of several revenue-based structural benchmarks (including the publication of TE report) and the timely review and discussion of tax policy matters (e.g. personal income tax reform, potential spillovers of goods and services tax reforms in India). The authorities have further enhanced their capacities in tax expenditure and tax policy, drawing on practical workshops and continuous knowledge sharing. Previous Progress: The authorities have successfully developed and published their first comprehensive TE report, for the years 2023 and 2024, following two CD missions/workshops on tax expenditures in direct and indirect taxes, respectively. Next Steps: Looking forward, the authorities have requested CD support in establishing a Tax Policy Unit (TPU), which will guide and inform tax policy matters in Nepal. The mission will take place in April 2026. Further CD will support reforms in value-added taxes (VAT) and international taxes, and other priority areas as requested by the authorities. CD delivery will leverage both capacity building and training modalities to maximize CD impact. A regional workshop on Tax Expenditure, designed to address specific regional considerations and facilitate knowledge exchange, is scheduled for early February 2026 at the IMF Capacity Development Office in Thailand. This initiative—funded under the Japan Administered Account for Selected IMF Activities, financed by the Government of Japan—took inspiration from the recent CD workshop held in Nepal, and will facilitate peer learning among participating countries, including Nepal.

III. LOGICAL FRAMEWORK

Country – Nepal		
Objective – Improve Tax Policy Design - TPD		Rating - 3
Outcome	Rating	Narrative
Increased/decreased revenue quantity	3 Largely Achieved	As part of the Domestic Revenue Mobilization Strategy, a comprehensive TE report, covering all major taxes in Nepal for 2023 and 2024, has been developed and published. TE and tax policy reforms are awaiting implementation by the

		authorities to maximize their impact, including through the establishment of a TPU within the Ministry of Finance.
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	3 Largely Achieved	A comprehensive TE report, covering all major taxes in Nepal for 2023 and 2024, has been developed and published. TE and tax policy reforms are awaiting implementation by the authorities to maximize their impact, including through the establishment of a TPU within the Ministry of Finance.
Objective – Strengthen Policy Monitoring, Evaluation, and Institutions - TPM		Rating - 3
Outcome	Rating	Narrative
Improved structures (e.g., TPUs) or capacity (e.g., models and tools) related to tax policy advice and analysis.	3 Largely Achieved	Two workshops on TE policy, including their reporting, evaluation, and governance, have been provided. A micro-simulation model to cost VAT has been developed and made available to the authorities, as well as a micro-simulation model to cost and evaluate personal income tax. Hands-on training sessions have been provided.
Improved transparency and outreach	3 Largely Achieved	Relevant training in strengthening tax policy monitoring, evaluation, and institutions have been provided.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
Risk that external events create a more challenging environment to implement reforms.	Low	Ensure sufficient flexibility in program execution and allow for ability to adjust activities in the case of adverse events.
Political Support		
The political cycle generates governance instabilities, restricting policy making and delivery.	Low	Secure policy continuity if political instability occurs. Ensure transparency, accountability, and inclusion in policy implementation. Engage regularly with ministers and senior management to ensure government ownership of reforms.
Management and Technical Staff Support and Commitment		
Low commitment of management and staff in finance ministry and revenue authority to adopt and implement tax expenditure policy framework.	Medium	Engage with senior management and technical staff proactively and explain their role in driving reforms. Ensure frequent engagement to maintain momentum and rekindle commitment where needed.

Description	Rating	Mitigation Measures
Resource Adequacy		
Insufficient technical capacity and human resources necessary to implement tax expenditure reforms are limited.	High	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited, in line with country engagement strategy.
Other Risks		
Multiple donors are providing technical assistance on strengthening revenue mobilization. Overlaps may arise as a result	Low	Under the leadership of the IMF's Asia and Pacific Department country team, take an active role in engaging with other donors to ensure support is well coordinated.

V. PROJECT MANAGER: CONTACT INFORMATION

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