

I. COUNTRY REFORM PROGRESS

Nepal continued to take important steps in strengthening its tax system. The Ministry of Finance (MoF) published its first comprehensive Tax Expenditure Report in July 2025, marking a major milestone under the Domestic Revenue Mobilization Strategy (DRMS). The report highlights the significant revenue potential and wider benefits from rationalizing tax expenditures and enhancing transparency of the tax system. Policy changes in the last two Budgets (FY2024/25 and FY2025/26) have advanced certain elements of the DRMS, although overall progress has been mixed. In addition, a Revenue Policy Unit (akin to a Tax Policy Unit or TPU) was established under the MoF in November 2025 to strengthen revenue policy design and coordination.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: A mission in March 2026 focused on building an effective TPU, which is expected to guide and inform tax policy making in Nepal. The mission emphasized the importance of strong institutional anchoring and capacity building for the TPU to become fully functional.

Previous Progress: The authorities have successfully developed and published their first comprehensive tax expenditure report, building on two capacity development (CD) missions/workshops on tax expenditures. This is a significant milestone of the DRMS, and paves the way for tax expenditure rationalization and reforms.

Next Steps: Further CD will support reforms in value added tax (VAT) and taxation of multinational companies, and continue enhancing the capacity of the TPU. CD delivery will leverage both technical assistance and training modalities to maximize impact.

III. LOGICAL FRAMEWORK

Country – Nepal		
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 3
Outcome	Rating	Narrative
Increased/decreased revenue quantity	3 Largely Achieved	As part of the DRMS, a comprehensive tax expenditure report, covering all major taxes in Nepal for year 2023 and 2024, has been developed and published. A TPU, following FAD recommendation, has been set up within the MoF and will need strong institutional anchoring and capacity building. Tax expenditure and tax policy reforms are awaiting implementation by the authorities to maximize their impact.

Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	3 Largely Achieved	Tax expenditure and tax policy reforms are awaiting implementation by the authorities to maximize their impact, including through the establishment of a TPU within the MoF.
RM II: 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	Authorities enhanced their skills through two workshops on tax expenditure policy, including their reporting, evaluation, and governance, provided by FAD. Micro-simulation models to cost VAT and personal income tax (PIT) have been developed and made available to the authorities to support their work in costing VAT and PIT and evaluating PIT. Hands-on training has been provided. A TPU has been set up recently, and requires strong institutional anchoring and capacity building to make a significant impact in tax policy making in Nepal. A medium-term work plan, including near-term priorities, has been developed for the TPU, building on existing capacity and analytical tools that have been developed in previous missions.
Improved transparency and outreach	3 Largely Achieved	A comprehensive tax expenditure report, covering all major taxes in Nepal for year 2023 and 2024, has been developed and published. The activities noted above supported improving the transparency of budgetary actions because tax expenditures are analogous to direct spending programs. Another benefit is that it creates a catalogue of costed measures that can be used to raise revenues when needed.

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

Description	Rating	Mitigation Measures
		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.
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 MANAGERS: CONTACT INFORMATION

Project Manager	E-mail
Li Liu (through April 30, 2026)	LLiu@imf.org
Kevin Shoom (effective May 1, 2026)	KShoom@imf.org