

Research Article

# Property Taxation in Nepal: Institutional Constraints, Valuation Practices, and Reform Prospects

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## Abstract

Property taxation is widely recognized as a stable and efficient source of local government revenue and a critical instrument for strengthening fiscal decentralization. In Nepal, the transition to federalism under the 2015 Constitution of Nepal has expanded the fiscal authority of local governments, including the power to levy property taxes. Despite this constitutional mandate and the legal framework established by the 2017 Local Government Operation Act, property tax revenue remains substantially below its potential. This study critically examines institutional constraints, prevailing valuation practices, and reform prospects for property taxation in Nepal. Adopting a qualitative doctrinal and institutional analysis approach, the study reviews constitutional provisions, fiscal legislation, Local Government Economic Acts, government reports, and relevant academic literature. The findings reveal three interrelated challenges: institutional fragmentation between land administration and local governments; reliance on administratively determined minimum land values disconnected from market realities; and limited digital integration of cadastral and tax information systems. These weaknesses undermine revenue productivity and administrative efficiency. The study argues that effective reform requires legal harmonization, adoption of market-based mass appraisal systems, digital interoperability between land and tax databases, and enhanced technical capacity at the local government level.

## Keywords

Property Taxation, Institutional Constraints, Valuation, Reform

## 1. Introduction

Property taxation is considered one of the most efficient and stable sources of local government revenue worldwide [1, 2]. Unlike income or consumption taxes, property tax bases are immobile and visible, making them suitable for local fiscal autonomy and accountability. In developing economies, effective property taxation enhances service delivery, urban infrastructure financing, and governance responsiveness [3].

Property taxation is justified on benefit, ability-to-pay, and accountability principles [4]. The immobility of land makes property tax less distortionary than other local taxes

[2]. However, in developing countries, valuation constraints and weak administrative capacity reduce its effectiveness [1].

Developing economies often face: a weak cadastral system, outdated valuation rolls, political resistance to reassessment, and limited professional valuation capacity. According to [3], administrative simplicity often leads to area-based or administratively determined values rather than market-based mass appraisal systems. Under the fiscal federalism theory [4], local governments require own-source revenue for accountability

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and efficiency. Without effective property taxation, decentralization risks vertical fiscal imbalance. In Nepal's context, fiscal decentralization is constitutionally embedded but administratively evolving.

In Nepal, the introduction of federalism under the 2015 Constitution of Nepal significantly restructured fiscal authority. Schedule 8 of the Constitution grants local governments the power to levy house and land taxes [5]. The Local Government Operation Act further operationalizes these powers by authorizing municipalities and rural municipalities to impose property taxes within their jurisdictions [6]. The Intergovernmental Fiscal Arrangement Act defines revenue-sharing arrangements across federal tiers. According to the Intergovernmental Fiscal Arrangement Act of 2017, the Land Revenue Offices (LROs) and Land Reform and Revenue Offices (LRROs) under the Department of Land Management and Archive (DoLMA) of the Ministry of Land Management Co-operative and Poverty Alleviation (MoLMCPA) are responsible for collecting the Property Transfer Taxes (PTTs). The Act stipulates that 40% of the taxes collected go to the provincial government, while 60% is allocated to the local government [7].

Despite this enabling framework, property tax revenue in Nepal remains modest compared to its potential contribution to local budgets. Existing valuation systems for registration at Land Revenue offices rely heavily on minimum land values, and Local Governments (LGs) have their own schedule of valuation based on their economic acts for property taxes, which often diverge significantly from market prices. Institutional fragmentation between central land administration agencies and local governments complicates property identification and tax assessment.

This study investigates how institutional arrangements affect property tax administration in Nepal; the strengths and weaknesses of prevailing valuation practices; and reform prospects for improving efficiency and revenue performance. The study contributes to the literature on property taxation in federal developing countries and offers practical reform pathways.

## 2. Materials and Methods

This study adopts a qualitative doctrinal and institutional analytical approach. It examines constitutional provisions, legislative acts, and administrative practices governing property taxation. The primary data sources are the Constitution of Nepal, the Local Government Operation Act, the Land Revenue Act, the Intergovernmental Fiscal Arrangement Act, and the LGs Economic Acts and fiscal reports. The secondary sources: Peer-reviewed literature on property taxation, Government reports, and Policy and land administration documents. The analysis is structured into: institutional structure, valuation methodology, governance, digital integration, and reform prospects.

## 3. Literature Review

Property taxation in Nepal has evolved through a complex historical, institutional, and administrative trajectory. Early studies indicate that land has traditionally been the principal source of state revenue, with taxation systems dating back to pre-modern regimes characterized by fragmented and non-uniform assessment practices [8]. The formal introduction of property taxation began in the mid-20th century, with reforms under the Finance Act (1959) and subsequent Property Tax Act (1960), reflecting a gradual transition toward modern fiscal systems [9]. Despite these reforms, the system has remained constrained by structural and administrative inefficiencies.

### 3.1. Institutional Constraints in Property Taxation

A consistent theme in the literature is the presence of institutional weaknesses in Nepal's land and property taxation system. Studies highlight fragmented governance structures, weak coordination among land administration agencies, and a lack of integrated policy frameworks [10]. The absence of a comprehensive national land policy and inadequate regulatory mechanisms has resulted in inefficiencies in tax assessment, collection, and enforcement. Moreover, manual record-keeping systems and limited digitization have further constrained the transparency and accessibility of land information.

Fiscal decentralization has shifted property taxation responsibilities to local governments; however, municipalities often face capacity limitations, including a lack of skilled personnel, weak institutional frameworks, and inadequate technological infrastructure [11]. These institutional gaps reduce the effectiveness of the property tax as a reliable source of local revenue, despite its recognized potential.

### 3.2. Valuation Practices and Challenges

Property valuation is a critical component of an equitable and efficient property tax system. However, the literature suggests that valuation practices in Nepal are largely non-scientific and subjective, relying heavily on administrative benchmarks and expert judgment rather than market-based or spatially explicit methods [12]. This often results in significant discrepancies between official valuation and actual market value.

Further, existing valuation systems lack transparency and consistency, leading to under-valuation of properties and reduced tax revenue [13]. The absence of standardized valuation models and the limited use of geospatial technologies exacerbate inequities in tax assessment. Additionally, the literature highlights that poor coordination among institutions involved in valuation and compensation processes contributes to delays and disputes, particularly in land acquisition contexts [12].

### 3.3. Contribution of Property Tax to Revenue

Empirical studies indicate that property taxes contribute modestly to municipal revenues in Nepal, despite their theoretical potential as a stable and progressive revenue source. For example, analyses of municipalities show that house and land taxes remain underutilized due to inefficiencies in valuation, collection, and enforcement mechanisms [9]. Similarly, broader studies on municipal finance suggest that taxation systems in Nepal are not fully optimized to support local development needs [14].

### 3.4. Reform Prospects and Policy Directions

The literature widely recognizes property taxation as an underexploited fiscal instrument with significant potential for enhancing domestic revenue mobilization. Reform recommendations emphasize the need for modernization of land administration systems, including digitization of land records, integration of institutions, and development of a National Spatial Data Infrastructure [10, 15].

Scholars also advocate for the adoption of scientific and GIS-based valuation models, which can improve accuracy, transparency, and fairness in property assessment [12]. Strengthening institutional capacity at the local level, enhancing inter-agency coordination, and implementing clear legal and policy frameworks are further identified as key priorities. Overall, while Nepal's property taxation system has undergone gradual reforms, the literature suggests that addressing institutional constraints and improving valuation practices are essential to unlocking its full potential as a tool for equitable and sustainable urban development.

## 4. Findings and Discussion

This section is further categorized into institutional structure, valuation practices, fiscal implications, digital integration challenges, and reform prospects as follows.

### 4.1. Institutional Structure and Fragmentation

Different institutions have different responsibilities based on various laws for conducting valuation and taxation processes, with minimal inter-agency collaboration. For instance, government authorities at various levels perform valuations for taxation purposes. The procedures followed to determine land and property values and taxes vary and lack consistency. Nepal also lacks a unified and widely accepted valuation standard, leading each responsible institution to establish its own specific guidelines for property valuation and taxation. Moreover, the number of qualified valuers is limited. At present, there is no specialized course on land and property valuation and taxation, and the valuation and taxation profession is not adequately regulated.

Nepal would benefit from separate land valuation and taxation legislation to provide clear standards and procedures for valuation for taxation purposes and clarify the institutional arrangements. In the interim, the Nepal government should designate an institution to lead this legislative effort, with the MoLMCPA being a potential candidate for this role [13].

Land records are maintained by federal land administration offices such as district LROs and Survey Offices (SOs), while local governments administer property taxation. This separation creates data inconsistencies, duplication of records, and weak coordination. Local governments lack direct control over cadastral updates, limiting accurate tax base identification. The administrative capacity varies across municipalities. The urban centers exhibit relatively better technological infrastructure, whereas rural municipalities face staffing and technical shortages. The political reluctance to update property valuations further undermines revenue productivity.

### 4.2. Valuation Practices

Nepal primarily uses area-based assessment and minimum land value systems for land registration, and LGs have their own schedule of valuation based on their economic Acts. These administrative values are often lower than actual transaction prices. Major weaknesses include: an absence of Computer-Assisted Mass Appraisal (CAMA), a lack of systematic market data collection, limited transparency in valuation criteria, and irregular reassessment cycles. This results in horizontal inequity; similar properties may pay different tax amounts depending on outdated valuations. International best practice recommends market-based valuation with periodic reassessment [1]. The calculation of PTT is based on the minimum land valuation, as determined by the minimum land valuation committee at the district level, as established by the 1978 Land Revenue Act. The Committee, chaired by the Chief District Officer, includes members such as the District Development Committee chair or representative, Chief Survey Officer, Chief Tax Officer, and Chief Land Revenue Officer. Notably, there is no representation from the land valuation profession in this committee.

### 4.3. Fiscal Implications

The Property Transfer Tax in Nepal is calculated based on a fixed percentage of the minimum land value or the declared value, whichever is higher. For example, a 3-5.3% tax is levied by the LROs and LRRO in Bagmati Province [5]. Like many economies in transition, Nepal's land and property taxes have the capacity to make a significant contribution. Notably, the real estate sector is already contributing to approximately 9% to the national GDP, with the PTT and recurrent land and property taxes together accounting for about 1.7% of the total national budget [5]. At present, Nepal's land and property taxation system is underdeveloped and faces challenges in enforcement. A noteworthy example is the PTT, where the tax is

based on a minimum value set by a committee with limited technical expertise. This minimum valuation, often tied to land proximity to existing roads or declared value, tends to fall significantly below the actual market prices. As a specific example, in Lalitpur Metropolitan City (LMC), Ward 24, the minimum value is a mere one-quarter of the actual market value, exacerbating the system's inequity and confirming the

significant revenue loss for the government [5]. Low property tax revenue limits local fiscal autonomy. Dependence on federal transfers weakens accountability mechanisms envisioned under federalism. Strengthening property taxation could: enhance local service delivery, reduce vertical fiscal imbalance, and promote responsible urban growth. Table 1 highlights the land and property taxes in Nepal.

*Table 1. Land and Property Taxes in Nepal. Source [13].*

Types of taxes	Institutions	Taxes on property
Property Transfer Tax	LROs and LRROs	Tax is based on a fixed percentage of the minimum value. For example, 3%- 5.3% of the minimum land value or the declared value in Bagmati Province.
Annual property tax	Metropolis, sub-metropolis, municipality, and rural municipality	0.01% of the first Rs 100, 00,000 capitalised value of the property, then up to 0.6% for each increment of Rs 100, 000,000.
Annual land tax	Metropolis, sub-metropolis municipality, and rural municipality	Rate per ana for various categories of land

#### 4.4. Digital Integration Challenges

The country's cadastre and land registry records have relatively good coverage and are readily accessible in digital format, presenting a valuable opportunity to leverage the establishment of a modern land valuation and taxation system. The cadastral records are seamlessly integrated into the Nepal Land Information System (NeLIS), while land registry records are managed through the Land Record Information Management System (LRIMS). Both systems are under the MoLMCPA, albeit within two distinct departments. However, the cadastral and land registry data are not fully harmonized, there is a lack of a unique common identifier, and the information systems are not linked. The MoLMCPA is working on the data integration, but significantly more funding is needed to complete it nationwide. The synchronization of these systems and databases is poised to enhance not only the efficiency of land registration processes and service delivery but also lay the groundwork for the development of an integrated land and property valuation and taxation information system [9].

Nepal's cadastral and land registration records are digitized, but integration with municipal tax systems remains limited. Challenges include: non-interoperable databases, lack of unique property identification numbers, manual data reconciliation, and limited GIS integration. The digital reform offers a significant opportunity to improve transparency, compliance, and efficiency.

#### 4.5. Reform Prospects

A reform agenda includes: adoption of mass appraisal

methods, development of a unified property database, legal data-sharing mandates, GIS-based tax mapping, professional training in property valuation, and transparent grievance redress mechanisms. Pilot municipalities could test digital and valuation reforms before national rollout. Initiate the development of a comprehensive Property Valuation Act through an inclusive and participatory consultation approach. Consider assigning the MoLMCPA to lead this collaborative effort with other government agencies and stakeholders.

Define a common valuation standard in the Property Valuation Act based on internationally recognized valuation standards such as International Valuation Standards (IVS). The adopted common valuation standard should guarantee consistent valuation of land and properties, fostering openness and transparency in the real estate market. It is also necessary to enhance public trust and market stability by including institutional roles and responsibilities, processes and procedures, valuation frequency, valuer qualifications and experience, a code of ethics, standard valuation methods, reports, and specific guidance for unregistered or unrecorded lands and properties.

Conduct an in-depth study and comparative analysis on the merits of transitioning to a market-oriented approach to determine recurrent property and rental taxes in consultation with relevant government agencies, valuation practitioners, and key stakeholders.

### 5. Conclusion

Property taxation in Nepal remains underperforming despite a strong constitutional mandate. The institutional frag-

mentation, outdated valuation methods, limited digital integration, and administrative capacity constraints undermine revenue potential and equity. Aligning land administration with property tax systems is essential for fiscal sustainability under federalism. The market-based valuation reform, digital interoperability, and institutional harmonization are critical to unlocking revenue potential and strengthening local governance. The following are the policy recommendations: amend regulations to ensure mandatory cadastral data-sharing, introduce periodic market-based reassessment cycles, develop integrated digital land-tax platforms, establish national valuation standards, provide technical training for municipal staff, launch pilot digital property tax projects, and improve taxpayer awareness and transparency.

## Abbreviations

CAMA	Computer-Assisted Mass Appraisal
DoLMA	Department of Land Management and Archive
GDP	Gross Domestic Product
GIS	Geographic Information System
IVS	International Valuation Standard
LGs	Local Governments
LMC	Lalitpur Metropolitan City
LRO	Land Revenue Office
MoLMCPA	Ministry of Land Management, Co-operative and Poverty Alleviation

## Author Contributions

**Subash Ghimire:** Conceptualization, Data curation, Formal Analysis, Methodology, Resources, Writing – original draft, Writing – review & editing

## Conflicts of Interest

The author declares no conflicts of interest.

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## Biography



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