Trend Analysis of Provincial Revenue

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Federalism & Localization Centre
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Preface

The Constitution of Nepal 2015 formally decentralized the previously centralized state system by dividing powers among the federal, provincial, and local governments. The schedules of the Constitution outline the jurisdiction and authority of all three levels of government. Over the past decade, Nepal has made significant efforts to lay the foundation for federal practice; however, numerous opportunities and challenges have also emerged along the way.

This study seeks to explore how provincial governments are mobilizing and managing their internal revenue sources within the framework of fiscal federalism. By analyzing relevant trends and identifying key challenges, it provides evidence-based recommendations aimed at strengthening fiscal federalism. The study aspires to contribute to policy dialogue that enhances provincial fiscal autonomy, transparency, and accountability.

Given that inter-governmental fiscal transfers remain the main financial source in Nepal, the sustainability of provincial autonomy largely depends on improvements in internal revenue mobilization. However, provinces continue to face institutional, legal, and technical challenges in expanding their revenue base and improving revenue administration. This study situates these challenges within the broader efforts to strengthen fiscal federalism and inter-governmental coordination in Nepal.

The main objective of this study is to analyze the constitutional, legal, and practical dimensions of provincial governments' internal revenue jurisdictions and to identify measures for improving revenue mobilization. For this purpose, it reviews policies related to provincial internal revenue headings, examines revenue-sharing, royalties, and grants, and analyzes revenue trends from FY 2075/76 to 2082/83. The study does not cover expenditure patterns, unspent cash balances, or internal borrowing; rather, it focuses primarily on internal revenue components.

The report centers on provincial internal revenue mobilization, revenue-sharing mechanisms, and the balance between grants and own-source revenues. It employs a mixed-method approach, combining secondary data analysis with insights from Bagmati and Madhesh provinces, covering data from FY 2075/76 to 2082/83.

The findings of this study are expected to be useful for policymakers, provincial government officials, parliamentarians, researchers, development partners, and stakeholders involved in public financial reform. The report can serve as both an analytical and policy-oriented reference. Although it draws primarily on official data and complementary information from selected provinces, inconsistencies in data formats and availability across agencies and fiscal years should be considered when interpreting the findings.

The study team extends sincere gratitude to provincial government officials, policymakers, oversight bodies, and stakeholders who provided data, insights, and valuable feedback. Their contributions greatly enriched the analysis and recommendations presented in this report. Special thanks go to Dr. Khimlal Devkota for leading the study and writing process, the data collection team, and Amol Acharya, Mohd Ayub, and Krishna Shah for their work on report editing. The

views expressed in this report are those of the contributors and do not necessarily represent the official position of the institution involved. ***In case of any ambiguities, the original report prepared in Nepali shall prevail over this translated version***.

Executive Summary

The Constitution of Nepal promulgated in 2015 establishes a three-tier governance structure – federal, provincial, and local levels. This framework constitutionally decentralizes the previously centralized state system by granting substantial financial powers to subnational governments. The Constitution's schedules (5-9) outline the powers of each tier. Provincial and local governments have the authority to legislate, prepare budgets, and collect taxes within their respective jurisdictions.

For provinces, these powers include mobilizing resources from internal revenue, royalties, revenue sharing, fiscal transfers, and domestic borrowing. However, as federalism is still in its early stages, provinces have struggled to fully utilize their internal revenue potential due to gaps in legal frameworks, technical capacity, and institutional structures. The federal government has often criticized provinces for neglecting revenue mobilization, relying heavily on grants, and keeping large portions of grants idle rather than spending them.

This study aims to analyze the constitutional, legal, and practical dimensions of provincial internal revenue authority and identify ways to improve revenue mobilization. It reviews policies related to provincial internal revenue, examines revenue sharing, royalties, and grants, and analyzes revenue trends from FY 2018/19-2025/26. It does not, however, delve into how much provinces spent from grants, how much they held as reserves, or the extent of domestic borrowing.

A mixed-method approach was adopted, incorporating both statistical analysis and field data from Bagmati and Madhesh provinces. Consultations with stakeholders helped identify practical measures to enhance revenue mobilization.

In FY 2023/24, total provincial revenue stood at NPR 1.74 trillion – 77% of the projected figure – with per capita revenue at approximately NPR 365. Own Source Revenue (OSR) contributed 20.16% to total revenue, while internal revenue (including royalties and revenue sharing) contributed 54.58% and grants accounted for the remaining 45.42%.

Excluding grants, internal revenue amounted to NPR 95.16 billion – 74.42% of the budget. Of this, local revenue made up 36.94%, royalties 1.65%, and revenue sharing a dominant 61.42%. The heavy reliance on revenue sharing underscores the need for provinces to work closely with the federal government to expand its scope and address leakages.

Breaking down local tax revenue (excluding royalties and revenue sharing), vehicle tax was the largest contributor at 32.83%, followed by land and property registration fees (31.21%) and business registration fees (18%). Agricultural taxes had the smallest share. In FY 2023/24, provinces collected only 68% of their projected OSR.

During the same year, provincial recurrent expenditure totaled NPR 72 billion, while internal revenue reached NPR 95.16 billion – leaving a surplus of NPR 23.13 billion. Except for Karnali

Province, all provinces generated enough internal revenue to cover their recurrent expenses, and they also provided fiscal transfers to local governments under this heading.

Key Findings and Recommendations

The study highlights revenue mobilization disparities among provinces, unrealistic revenue projections, poor data management, and both policy and implementation shortcomings. Recommendations include:

1. Improve Revenue Projections
   o Base estimates on reliable data, economic activity, and realistic assumptions.
   o Use scientific forecasting tools and revenue modeling.
   o Align budget projections with past performance by revenue headings.
2. Strengthen Human and Institutional Capacity
   o Enhance the organizational and technical strength of revenue offices.
   o Provide continuous training, specialized skills, and motivation to tax staff.
   o Fully digitize revenue collection and management for transparency and leakage prevention.
3. Enhance Intergovernmental Coordination and Legal Clarity
   o Establish clear policies on revenue authority, sharing, and natural resource management between all three tiers.
   o Amend the Intergovernmental Fiscal Arrangement Act, Local Government Operation Act, and related laws.
   o Implement transparent policies for advertisement tax, agricultural revenue, and concurrent rights.
4. Institutional Reforms
   o Reform tax administration, strengthen monitoring, and create taxpayer-friendly systems.
   o Bring under-taxed sectors (agriculture, tourism, digital transactions) into the tax base with clear policies and action plans.
5. Sector-Specific Measures (including grants)
   o Agriculture Income and Production Tax: Define agricultural income legally, exempt small farmers, tax commercial ones, and coordinate on digital tracking, assessment, and market management.
   o Tourism & Trekking Fees: Use digital systems for route management, fee collection, and national park partnerships.
   o Forest Product Fees: Set transparent service charge standards for community forests.
   o Communication Service Fees: Register and renew radio, FM, and TV licenses online with regular reporting.
   o Fines & Fees: Standardize traffic and administrative charges and make collections transparent through digital tools.
   o Vehicle Tax: Identify unregistered vehicles, improve collection via digital systems, and require renewal for heavy machinery.

- Property Registration Fees: Use GIS-based scientific valuation and monitoring to align assessed values with market prices.
- Entertainment Tax: Define provincial-local responsibilities, use digital ticketing, and ensure clear legal provisions.
- Advertisement Tax: Include digital media, improve valuation transparency, and establish dedicated units with strong data systems.
- Mining & Construction Materials: Prevent leakage via digital bidding, GPS/QR tracking for transport, and active monitoring.
- VAT & Excise Sharing: Strengthen data systems, curb leakage, and coordinate across all tiers.
- Natural Resource Royalties: Promote sustainable use of forests, equitable hydropower royalty distribution, scientific mining, sustainable Himalayan tourism, and petroleum exploration.
- Grant Policy Reform: Increase equalization grants proportionally, set clear criteria for special/matching grants, ensure timely disbursement, and align grants with provincial development strategies.

Part One: Introduction

1.1 Background

Nepal's Constitution, promulgated in 2015, dismantled the unitary state system by distributing state powers and established a three-tier federal structure comprising the federal, provincial, and local levels. The Constitution fundamentally transformed governance by allocating state powers across the three levels. Within a short period after the first elections under this new structure, provincial and local governments began operating as key pillars of federalism. At the provincial level, revenue mobilization and fiscal autonomy emerged as crucial dimensions of this transformation, with provinces navigating their constitutionally assigned tax bases and intergovernmental fiscal transfers to finance governance and development.

Article 56 of the Constitution empowers each federal unit to exercise executive, legislative, and judicial authority. Article 57 defines the exclusive and concurrent powers of all three levels of government. These powers are detailed in the Schedules of the Constitution: Schedule 5 lists federal powers; Schedule 6 lists provincial powers; Schedule 7 lists concurrent powers between the federal and provincial levels; Schedule 8 lists local government powers; and Schedule 9 outlines concurrent powers shared by all three levels. While each level must respect the exclusive jurisdiction of the others, in matters of concurrent powers, federal law prevails.

Article 59 empowers the three levels to exercise financial authority, and Article 60 deals with revenue sharing arrangements. Within their respective jurisdictions, federal, provincial, and local governments have the right to enact laws, prepare annual budgets, make decisions, frame policies and plans, and implement them. They also have the authority to levy taxes and collect revenues from various sources. This marks the end of Nepal's long-standing centralized governance system and the beginning of constitutionally entrenched political, administrative, and fiscal decentralization.

The federal system distributes the revenue collection rights across the three tiers. At the federal level, the government collects revenue through customs, excise duties, value-added tax (VAT), institutional income tax, personal income tax, remuneration tax, passport and visa fees, tourism-related fees, service charges, and fines and penalties. Provincial governments, on the other hand, are entitled to revenue from land and property registration fees, vehicle taxes, entertainment and advertisement taxes, as well as taxes on tourism and agriculture, in addition to service charges and fines. Local governments also have clearly defined sources of revenue, which include property tax, house rent tax, land and property registration fees, vehicle taxes, tourism charges, advertisement and business taxes, land revenue (*malpot*), fines, and entertainment taxes.

Some revenue powers between provinces and local governments overlap. The *Intergovernmental Fiscal Arrangement Act, 2017* introduced a "single tax administration" mechanism for taxes listed in their exclusive jurisdictions but with shared operational responsibilities. Under this system, one level of government collects a tax and shares the revenue with another. For example, provinces determine the base and rate for land and property registration fees, but local governments collect them, currently through Land Revenue Offices under the federal government. Once local

governments are fully capable, they will take over this function. However, since no specific time frame has been defined in the law, it is equally important that capable local governments take the initiative to fully exercise this authority. A similar arrangement applies to vehicle taxes, where provinces address with legislation, policy, and collection, keeping 60% of the revenue and sharing the remaining 40% to local governments based on a formula set by the National Natural Resources and Fiscal Commission (NNRFC).

Royalties from natural resources, such as mountaineering, electricity, forests, and minerals, are in the shared powers list. The Act provides that provinces and local governments each receive 25% of such royalties, with the federal government distributing the shares according to the criteria set by the Commission.

In addition, the Act entitles provinces and local governments to receive 15% each of VAT and excise duties (on domestically produced goods). They also benefit from constitutional and legal provisions for intergovernmental fiscal transfers, which include equalization grants, conditional grants, special grants, and complementary grants.

1.2 Rationale of the Study

In February 2018 the provincial governments were formed after the elections held over November-December. After their formation, each province presented a budget of NPR 1.02 billion for fiscal year 2017/18. This was an interim budget, funded entirely through a fiscal equalization grant of the same amount provided by the federal government. Using this as their sole financial resource, provinces prepared their first budget. The first full-fledged provincial budget was introduced in the fiscal year 2018/19.

By the fiscal year 2025/26, provinces have brought eight consecutive budgets. In terms of size, the combined budgets of the seven provinces amounted to NPR 208 billion in 2018/19. Eight years later, the total budget stands at NPR 287 billion which indicates a compound annual growth rate (CAGR) of ≈ 4.71% per year,[1] slightly higher than the GDP growth rate of 4.61 per cent.[2] The Constitution positions provinces as key drivers of development, responsible for achieving sustainable development and prosperity through budget allocations in sectors such as social, economic, and infrastructure development. To fulfill this mandate, adequate financial resources and tools are essential.

In the provincial context, there are essentially five pillars of financial sources: internal tax revenues, royalties, revenue sharing, fiscal transfers, and internal borrowing. Among these, the mobilization and expansion of internal tax revenue is a critical area that requires careful examination. In the 2025/26 budget, internal tax revenue accounts for 20.41% of total provincial resources, revenue sharing for 27.71%, and fiscal transfers for 33.92% (See Annex 28 for details). In principle, the share of internal revenue in total provincial resources should steadily increase, while dependency on grants should decrease. It is also necessary to study the scope of provincial tax revenues from this

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[1] Author's calculation
[2] https://data.mof.gov.np/

perspective. The provinces have been identifying revenue sources, assessing capacity, managing systems, and examining existing problems in their own ways, but an integrated and comprehensive study on this subject is required.

This study therefore focuses on the areas of provincial tax authority related to internal revenue mobilization, both those shared with local governments (listed in their respective exclusive jurisdictions) and those solely under provincial authority. While the emphasis is on internal tax revenue, the study also examines certain aspects of revenue sharing, royalties, and grants. It additionally makes a general assessment of whether provincial revenue alone is sufficient to cover their administrative expenditures.

1.3 Objectives of the Study

The primary objective of this study is to examine the constitutional basis, legal provisions, and implementation of provincial powers (the practical aspects of it) over internal revenue, and to identify ways to enhance the effectiveness of revenue mobilization along with possible avenues for reform.

The specific objectives are as follows:

1. Examine the constitutional and legal dimensions, both federal and provincial laws, related to provincial internal revenue authority.
2. Critically review provincial policies concerning internal revenue categories.
3. Conduct a general analysis of revenue sharing, royalties, and grants.
4. Analyze trends in provincial internal revenue mobilization from fiscal year 2018/19 to 2025/26.
5. Propose potential policy and administrative reforms based on trend analysis of internal revenue.

1.4 Methodology and Process of the Study

This study adopts a mixed-method approach to analyze the structure, efficiency, and potential of internal revenue in all seven provinces of Nepal. Initially, the plan was to focus on only two provinces. However, using the same team and available resources, the scope was later expanded to cover all seven provinces. Nevertheless, field-level data collection and direct interactions were limited to Bagmati Province and Madhesh Provinces. These two provinces were purposively selected for two reasons: Madhesh being the catalyst of adopting federalism. Thus it makes important sense to see how the revenue and expenditure spheres are performing. On the other hand Bagmati Province is the home to Kathmandu City, the capital of Kathmandu and the most important city in Nepal's political, economic and social scheme of things. Thus it makes sense to see how the reveneu and expenditures are performing.

The study began with a desk review of the Constitution of Nepal, federal and provincial laws, budget records, economic policies, audit reports, and related documents. Fieldwork was carried

out in Hetauda Sub-Metropolitan City and Manahari Rural Municipality (Bagmati Province), and Jitpur-Simara Sub-Metropolitan City and Bateshwar Rural Municipality (Madhesh Province), guided by a checklist to assess provincial revenue. Interactions and interviews were conducted with local mayors, deputy mayors, chairs, vice-chairs, chief administrative officers, ministry secretaries, and staff, as well as officials from the Provincial Treasury Controller's Office. The study collected revenue data (budgeted and actual) for FY 2018/19–2025/26, with actual figures up to FY 2023/24 and estimates for FY 2024/25–2025/26, enabling trend analysis. Preliminary findings were validated through expert and stakeholder consultations, including meetings in Kathmandu with secretaries of all seven provincial Ministries of Economic Affairs, provincial treasury controllers, and other officials.

1.5 Scope and Limitations of the Study

This study primarily relies on secondary data sources. During the study period, the federal, provincial, and local governments were engaged in their budget preparation processes, making it difficult to conduct extensive direct consultations with stakeholders. As a result, the research had to depend more heavily on secondary data. Some essential information was collected through telephonic conversations and other alternative channels; however, due to the time pressure of the budget season, there was little opportunity to cross-verify these with multiple sources.

Most of the data used in this study were obtained from provincial government budget speech booklets, as well as the annual reports of the Office of the Financial Comptroller General and the Office of the Auditor General. However, certain inconsistencies were found between figures in budget booklets and those in the reports of the FCGO, which means there may be minor discrepancies in some data points. Efforts were made to minimize such differences and reconcile the information wherever possible. Some challenges also arose due to changes in the definitions and coding of certain revenue headings over time.

The study focuses mainly on internal revenue headings under the jurisdiction of provincial governments. It does not examine in detail how provinces have spent grants received from the federal government, the sectors in which such funds were used, or the amounts left unspent as cash balances. Similarly, the study does not cover the mobilization of internal borrowing by provinces – although, in practice, provinces have not officially taken internal loans to date. Cash balances have also not been counted as revenue in this analysis.

These limitations should be taken into account when interpreting the study's findings and recommendations.

1.6 Structure of the Study Report

This study report is organized into four main sections:

- The first section presents the background, rationale, objectives, and the methodology and process of the study.

- The second section examines the constitutional, legal, and policy frameworks related to internal revenue.
- The third section analyzes the trends and current status of revenue mobilization.
- Fifth and final section outlines the study's key findings along with recommendations for improvement.

Part Two: Constitutional and Legal Provisions on Provincial Revenue Mobilization

2.1 Demographic and Geographical Overview

The key demographic, geographic, and economic indicators of the provinces are presented in Annex 3. These indicators show disparities among provinces in demographic, economic, social, and financial terms. By population density, Madhesh and Bagmati are the most densely populated provinces, while Karnali has the lowest density. In terms of area, Karnali is the largest and Madhesh the smallest province. By population size, Bagmati and Madhesh have the highest populations, whereas Karnali has the lowest. Based on economic indicators such as Gross Domestic Product, revenue growth, and financial institutions, Bagmati ranks highest, while Karnali and Sudurpaschim remain the weakest.

2.2 Constitutional and Legal Provisions

2.2.1 Constitutional Provisions Related to Revenue

Article 59 (1) of the constitution grants the federal, provincial, and local governments the authority to exercise their respective financial powers, framing and implementing laws, plans, policies, and programs, and to prepare their annual budgets.

Article 59 (2) provides that, for matters of concurrent jurisdiction listed in the constitution, federal policies, standards, and laws will also be applicable at the provincial level.

Similarly, Article 59 (3) requires provinces to comply with federal laws regarding their budgetary processes, and Article 59 (7) stipulates that federal law will guide provinces on budget formulation, public financial management, and fiscal discipline.

Under Article 60 (1), provinces have the authority to levy taxes and collect revenue within their jurisdiction. Article 60 (2) mandates that the revenue collected by the federal government be equitably shared among the federation, provinces, and local levels. Article 60 (3) specifies that the amount of fiscal transfers to provinces or local levels will be based on recommendations from the NNRFC.

Article 60 (4) distributes fiscal equalization grants to provinces and local levels based on their expenditure needs and revenue capacities. Article 60 (5) requires provinces to distribute fiscal equalization grants and their own-source revenues to local levels using similar criteria. Article 60 (6) allows for conditional, complementary, and special grants to provinces and local levels from the Federal Consolidated Fund in accordance with federal law. Article 60 (7) emphasizes transparency in revenue sharing among the three tiers of government, while Article 60 (8) requires federal revenue-sharing laws to consider national policies and needs.

Furthermore, Article 204 mandates the establishment of a State Consolidated Fund, into which all provincial revenues except revenues generated from Trusts (*Guthis*), borrowed funds, and repayments from federal loans must be deposited. Articles 203–213 detail the provincial financial procedures, including revenue and expenditure estimates, fiscal operations, and appropriation laws.

Articles 231–237 outline the administrative interrelationships between the federal, provincial, and local levels. Article 232 states that these relationships are to be based on cooperation, coexistence, and coordination. Article 235 (1) allows the federal parliament to enact laws to maintain coordination among the three tiers. Pursuant to these provisions, the *Federation, Province and Local Level (Coordination and Inter-relation) Act, 2020* is in force, ensuring, among other things, that no level of government encroaches upon the exclusive jurisdiction of another.

2.2.2 Federal Laws Related to Revenue Mobilization

Several federal laws directly relate to provincial revenue mobilization. Intergovernmental Fiscal Arrangement Act, 2017 and National Natural Resources and Fiscal Commission Act, 2017 define provisions for revenue generation, grants distribution, revenue sharing, domestic borrowing, budget expenditure, and fiscal discipline. To ensure transparency and accountability in the financial system, the Financial Procedures and Fiscal Responsibility Act, 2019 was enacted to provide frameworks for budgeting, accounting, expenditure, reporting, and auditing. Although federal in nature, this law also serves as a guiding framework for provinces.

Similarly, the Local Government Operations Act, 2017 covers revenue matters listed as concurrent powers between provinces and local levels. Issues such as the sharing of tax revenue powers listed in the exclusive jurisdictions of each level are also addressed in the Intergovernmental Fiscal Arrangement Act, which introduces the concept of a "single tax administration."

The *Federation, Province and Local Level (Coordination and Inter-relation) Act, 2020* further ensures cooperation and coordination between provinces and local levels, safeguarding against overreach into each other's exclusive domains. Specific revenue-sharing arrangements, such as for stone, gravel, and sand extraction, sales, and management, are set at a 60:40 ratio between local and provincial levels. This provision is currently under review by the State Affairs and Good Governance Committee of the House of Representatives.

Despite legal provisions granting provinces the authority to exercise their tax rights, ambiguity in legal definitions and inadequate coordination between provinces and local levels have led to confusion and disputes in tax administration.

2.2.3 Provincial Laws Related to Revenue Enhancement

All provinces have enacted legal frameworks for the collection of tax and non-tax revenues. However, there are disparities in terms of their revision, implementation, and making amendments. Most provincial laws are closely modeled on the federal Intergovernmental Fiscal Arrangement Act. To ensure objective grant allocation, minimum standards, clear partnership frameworks, and

transparency, it is essential to develop technical procedures. Partnering with the private sector for investments in productive sectors such as hydropower can help establish a sustainable long-term revenue base for provinces.

All provinces have enacted the *Provincial Vehicle and Transport Management Act, 2019* to generate revenue from transportation services and the *Provincial Forest Act* to manage forest-related activities. The *Tax and Non-Tax Revenue Act, 2018* is in force in all provinces. For instance, Koshi Province, in its FY 2025/26 budget, announced its plan to replace the *Tax and Non-Tax Revenue Act, 2018* with a new *Revenue Act* to further strengthen internal revenue mobilization. Likewise, Bagmati Province and Madhesh Province have both enacted the *Tax and Non-Tax Revenue Act, 2018*. While Gandaki Province revised its 2018 Act in 2020 and continues to operate under the amended framework.

The Section 5 of the Intergovernmental Fiscal Arrangement Act, 2017, the single tax administration system allows one level of government to collect certain taxes and share them with another. For example, provinces formulate policies and collect vehicle taxes, retaining 60% of the revenue while distributing the remaining 40% to local levels according to criteria set by the National Natural Resources and Fiscal Commission (details in Annex 4 of this report).

2.2.4 Provisions in Provincial Budget Statements Regarding Revenue Mobilization

Provincial revenue strategies focus on improving internal resource mobilization, simplifying tax systems, and enhancing administrative efficiency. Most provinces have adopted measures such as expanding the tax base, reforming legal provisions, revising fee structures, utilizing digital systems, and ensuring participatory policymaking.

Overall, provincial revenue policies appear orienteds toward sustainable development, good governance, and inclusive economic transformation. Koshi Province plans to establish a *Provincial Revenue Office* to improve coordination with local levels and make revenue collection more effective. Gandaki Province has announced the creation of a *Provincial Revenue Management Office* under its Ministry of Economic Affairs to enhance revenue mobilization.

Specific revenue-enhancement measures mentioned in the FY 2025/26 provincial budget statements are provided in *Annex 5* of this report.

2.3 Human Resources and Related Arrangements

Skilled personnel, and proper systems with efficient working of the structures in place to collect revenues are essential for effective revenue collection. However, most provincial bodies face significant challenges in this regard. In Madhesh province, for instance, office management remains a major hurdle. Another persistent issue is the inability to fully utilize modern information technology systems. Limited adoption of digital tools, absence of a comprehensive tax registration database, and constraints in online tax payment systems have hindered revenue collection from reaching its potential.

While Bagmati province has made considerable progress in expanding digital technology in revenue administration, Madhesh province lags far behind. This gap has complicated tax administration and exacerbated revenue leakage. Moreover, key oversight bodies, such as the Provincial Assembly's Finance Committees, have not given adequate attention to revenue enhancement. For effective revenue governance, these parliamentary committees need to be vigilant in monitoring revenue management, enforcing tax policies, and overseeing personnel administration. Unfortunately, the lack of subject-specific and technical expertise, insufficient resources, and political interference have reduced their effectiveness.

Similarly, tax monitoring and audit committees, which were established to oversee and evaluate tax administration, have not been functioning effectively. The main reasons include limited manpower, inadequate technical training, and political pressure, factors that have collectively weakened the overall monitoring system. The absence of clear monitoring standards, delays in procedures, and weak follow-up on recommendations made in audit reports have further complicated efforts to curb tax evasion.

An analysis of the approved staffing positions and their fulfillment status reveals a notable imbalance in provincial human resource management. Out of 27,786 approved positions, only 55.27% have been filled, leaving 44.73% vacant, directly impacting the quality of public service delivery. Bagmati and Gandaki provinces, with staffing fulfillment rates of 60.76% and 59.55% respectively, have comparatively stronger public administrations. In contrast, Madhesh and Karnali provinces have filled only 40.45% and 42.77% of their positions. In Madhesh, where there are 16 provincial bodies, 59.55% of approved posts remain vacant, clearly highlighting an imbalance between institutional workload and staff capacity. In geographically challenging provinces like Karnali, weak human resource management has also hindered policy implementation.

At a time when the overall efficiency of provinces is under question, the inability to fill positions as per approved staffing limits severely undermines their ability to exercise the powers and responsibilities entrusted to them. The details on provincial human resources are presented in Table 1.

Table 1: Povincial Workforce: Requirements vs. Deputations

Province	No. of Districts	No. of Ministries & Central Bodies	Approved Positions	Filled Positions	% Filled	Vacant Positions	% Vacant
Koshi	14	13	3,884	1,807	46.52	2,077	53.48
Madhesh	8	16	4,101	1,659	40.45	2,442	59.55
Bagmati	13	16	5,541	3,367	60.76	2,174	39.24
Gandaki	11	11	3,999	2,381	59.55	1,618	40.45
Lumbini	12	15	4,595	2,454	53.4	2,141	46.6
Karnali	10	12	3,094	1,323	42.77	1,771	57.23
Sudurpashchim	9	11	2,572	1,366	53.11	1,206	46.89
Total	**77**	**94**	**27,786**	**15,357**	**55.27**	**12,429**	**44.73**

Source: Auditor General's 62nd Report, 2025

2.4 Financial Coordination

Disputes between provinces and local governments over revenue are often triggered by ambiguities in revenue rights, rate determination, collection processes, and revenue-sharing mechanisms. Such disputes are not limited to the provincial and local levels, they also occur among the broader federal units, especially in matters of revenue enhancement and fiscal management.

The Intergovernmental Fiscal Arrangement Act, 2017 provides for the establishment of the Intergovernmental Fiscal Council to resolve these issues. However, the council has not been functioning with the expected level of activity. Similarly, to harmonize planning, revenue mobilization, and related areas between provinces and local governments, the *Federation, Province and Local Level (Coordination and Inter-relation) Act 2020* mandates the creation of Provincial Coordination Councils. But much like the fiscal council, these bodies have also remained largely inactive.

Participants during field visits from Bagmati and Madhesh provinces reported that these councils mostly convene meetings merely to fulfill legal formalities, without producing substantial or exemplary outcomes.

Annual reports from key bodies, such as the parliamentary committees on finance, the Ministry of Finance, the National Natural Resources and Fiscal Commission, the Office of the Auditor General, and the National Planning Commission, consistently highlight that poor inter-tier coordination has resulted in significant operational difficulties in public financial management across different levels of government.

2.5 Policy Analysis of Provincial Revenue Jurisdiction

Under the Constitution, the provincial governments' revenue jurisdiction can be broadly classified into two categories:

1. Independent provincial taxes (exclusive to the province, with no overlap with local governments).
2. Concurrent taxes (where both province and local governments have separate, individual rights over the same type of tax).

Below is a brief policy analysis of key provincial tax titles based on revenue heads.

2.5.1 Policy Analysis of Revenue Ttitles exclusive to Provincial Governments

Provincial governments in Nepal have diverse but unevenly mobilized revenue sources as outlined in the Constitution, fiscal acts, and financial codes. Agricultural income tax (Revenue Code 11114) is constitutionally devolved to provinces under Schedule 6, yet implementation remains weak. Only Koshi, Bagmati, Gandaki, and Lumbini have collected this tax, and even then minimally, while Madhesh, Karnali, and Sudurpashchim have not initiated collection. Several provinces also lack clear

bases and procedures for determining rates, underscoring the need for standardized assessment guidelines.

Non-tax revenue streams include sales of self-produced agricultural goods (Revenue Code 14211), covering items such as fish, dairy, fruits, seeds, homemade foodstuffs, and handicrafts. As these are small-scale and non-commercial, they are classified separately from broader agricultural income.

Tourism and trekking fees (Revenue Codes 14191 & 14192) are shared across tiers of government: the federal level controls levies, while provinces and local governments collect fees. Provinces regulate trekking and tourism charges under Section 64(1)(i) of the Local Government Operation Act, 2017, while local governments manage entry fees for parks, heritage sites, and museums. Collection mechanisms vary, Bagmati channels revenue into the Provincial Consolidated Fund, Gandaki through its Tourism and Industry Office, and Karnali splits funds between provincial and local accounts. Madhesh uniquely treats tourism-related charges as business taxes.

Forest product fees (Revenue Code 14264) also generate revenue, with provinces imposing charges on timber, non-timber products, and riverbed materials. Provincial variations include fixed per-unit charges, revenue-sharing from community forests, and mandatory deposits into provincial funds.

Additional non-tax revenues arise from radio, FM, and TV broadcasting licenses (2018 Act), business registrations under the Industrial Enterprises Act (2019), environmental and industrial management fees, and constitutionally granted fines and penalties. Together, these sources illustrate provinces' fiscal potential, though challenges of weak implementation, fragmented regulation, and inconsistent collection practices persist.

2.5.2 Policy Analysis of Revenue Titles Shared with Local Governments

Provincial and local governments in Nepal share several key revenue titles under constitutional and legal mandates, yet implementation reveals persistent coordination and capacity challenges. Vehicle tax (Revenue Code 11456) is set and collected by provinces, with 60% retained in the provincial consolidated fund and 40% transferred to local governments through the Province Treasury Controller Office based on NRFC's formula. Although local governments are legally authorized to tax small vehicles like e-rickshaws and cycle rickshaws, Koshi and Madhesh provinces continue collecting these revenues, citing inadequate local capacity, contradicting the Intergovernmental Fiscal Management Act. Koshi has also initiated an electronic vehicle registration system, while debates continue on updating the revenue-sharing standard.

Natural resource fees (Revenue Code 14157), covering stone, gravel, sand, and soil extraction, are another major shared source. Provinces set rates, while local governments regulate and administer collection. Revenue is deposited into the Local Divisible Fund, with 60% allocated to local governments and 40% to provinces. However, ground-level practice is fraught with issues: non-cooperation by local governments in remitting revenue to provinces, collusive tendering in places like Manahari, and interference by District Coordination Committees, leading to revenue leakages.

Land and property registration fees (Revenue Code 11315) are similarly split (60% local, 40% provincial), with provinces setting rates and local governments mandated to collect. In practice, federal Land Revenue Offices handle collection due to lack of local administrative capacity.

Entertainment tax (Revenue Code 11471) also follows the 60:40 sharing arrangement, with provinces setting rates and local governments collecting. Despite legal provisions, revenue generation is weak—for example, Hetauda Sub-Metropolitan has yet to collect from its cinema halls.

Finally, advertisement tax (Revenue Code 11472) is set and collected by local governments but shared through the Local Divisible Fund, again on a 60:40 basis. Collectively, these titles highlight structural arrangements for shared revenue mobilization but underscore weak enforcement, coordination gaps, and institutional limitations.

2.6 Policy Framework on Royalty Distribution

Section 7 of the *Intergovernmental Fiscal Arrangement Act, 2017* stipulates that royalties derived from natural resources must be deposited into a Federal Divisible Fund established by the Government of Nepal. The funds accumulated in this account are then to be distributed annually – based on the recommendation of the National Natural Resources and Fiscal Commission (NNRFC), among the federal, provincial, and local consolidated funds in the ratio 50 : 25 : 25, respectively.

In 2024, the NNRFC recommended a new formula for royalty distribution. However, the Government of Nepal did not adopt this formula for FY 2025/26 and instead followed the existing arrangement. The Commission's recommendations for the period FY 2025/26 to 2029/30 are provided in Annex *8.2*.

2.7 Policy Framework on Revenue Sharing

Section 6 of the *Intergovernmental Fiscal Arrangement Act*, 2017 outlines the revenue-sharing provisions for Value Added Tax (VAT) and Excise Duty on domestic production. Under this arrangement, VAT and excise revenue collected by the Government of Nepal are deposited into the Federal Divisible Fund. From this fund: 70% is allocated to the federal government,15% to the provinces, and 15% to local governments.

These amounts are to be transferred monthly into the respective consolidated funds. The revenues accruing to provinces and local governments from the divisible fund are further distributed to individual provinces and local units based on the criteria and framework set by the NNRFC, in accordance with the Constitution and the *Intergovernmental Fiscal Arrangement Act*.

However, the Commission's reports note that monthly distribution has not been carried out as per the prescribed schedule. The Act also provides that the detailed criteria and distribution framework determined by the NNRFC remain valid for five years, after which the Commission may review and revise them. Comprehensive details of revenue sharing are presented in *Annex 4.1*.

2.8 Policy Provisions on Grants

2.8.1 Fiscal Equalization Grant (Revenue Code 13311)

The Government of Nepal distributes fiscal equalization grants to provinces and local governments based on their expenditure needs and revenue-raising capacities, as recommended by the NNRFC. Legally, the Commission must determine the distribution formula considering indicators such as the Human Development Index, socio-economic inequality, status of infrastructure development, existing revenue levels, expenditure needs, and the potential to raise revenues.

For fiscal years 2025/26 to 2029/30, the Commission revised the criteria and formula for equalization grant distribution and submitted them to the Government of Nepal. However, according to the Commission officials, the government ignored these recommendations and continued to allocate grants under the old framework. Annex 8.3 presents the previous criteria, while Annex 8.4 shows the new criteria recommended by the Commission.

The Constitution also mandates provinces to distribute equalization grants to local governments, just as the federal government does to provinces and local levels. The Commission's review found that all provinces are complying with this legal requirement in line with the Commission's criteria.

2.8.2 Conditional Grant (Revenue Code 13312)

Under Section 9(1) of the Intergovernmental Fiscal Arrangement Act, 2017, the Government of Nepal provides conditional grants to provinces or local levels, or for the implementation of federal projects, based on criteria set by the NNRFC in accordance with Article 251(1)(g) of the Constitution. These grants, categorized under recurrent and capital headings, must be spent strictly in the designated sectors.

Although the Constitution requires these grants to follow the Commission's recommendations, in practice only fiscal equalization grants do so, while other grants are often allocated without adhering to the Commission's formula. The criteria for conditional grant distribution for fiscal year 2025/26 are listed in Annex 8.5.

2.8.3 Special Grant

According to the Intergovernmental Fiscal Arrangement Act, 2017, special grants are provided by the Government of Nepal for specific projects operated by provinces or local governments with objectives such as:

- Developing and delivering basic services like education, health, and drinking water
- Promoting balanced development between provinces and local levels
- Supporting the upliftment and development of groups or communities facing economic, social, or other forms of marginalization.

Provinces may also provide special grants to local governments in line with provincial law. Under Section 3 of the Special Grants Procedure, 2024, ongoing special grants can be used for operating costs, service delivery, human resource management, education, health, and social security. Capital special grants, on the other hand, are allocated for constructing physical infrastructure such as roads, bridges, hospitals, drinking water systems, and irrigation facilities.

2.8.4 Complementary Grants

Section 10 of the Intergovernmental Fiscal Arrangement Act, 2017, allows the Government of Nepal to provide supplementary grants to provinces and local governments for implementing infrastructure development projects. Section 10(2) specifies that such grants should be based on factors like project feasibility, cost, anticipated returns or benefits, necessity, and priority. These grants are specifically for infrastructure development initiatives.

Provinces may also provide Complementary grants to local governments in accordance with provincial law.

Part Three: Trends of Revenue Mobilization

This section presents a statistical analysis of provincial revenue. The analysis covers data from fiscal year (FY) 2018/19 to FY 2025/26. The figures for FY 2024/25 and FY 2025/26 are based on projections, while data up to FY 2023/24 reflect both projections and actual figures. The focus of the analysis is on the internal revenue headings of the provinces. Due to limitations in table formatting, the detailed statistics from FY 2018/19 to FY 2025/26 are provided in the annextures, while the main section highlights the data in a summarized form based on table size and relevance.

3.1 Provincial Own-Source Revenue (OSR) Overview

3.1.1 Revenue Titles exclusive to Provincial Governments

(a) Agricultural Income Tax (Revenue Code No. 11114)

An analysis of projected and actual agricultural income tax revenue from FY 2021/22 to FY 2025/26 shows that while revenue projections have been increasing, the actual collection has consistently fallen short. At the provincial level, Lumbini Province prepared revenue projections and managed to collect some amount, but the collection remained very low. Koshi, Bagmati, Gandaki, and Lumbini Provinces prepared projections and collected modest sums, while Madhesh Province did not prepare any projections at all. Karnali and Sudurpaschim Provinces only started making projections in FY 2025/26 of which the actual collection has yet to be seen.

Table 2 provides details of agricultural revenue by province including per capita revenue, with detailed data in Annex 9.

Table 2: Revenue Collected from Agricultural Income Tax (in '000, NPR)

Province	Projected					Actual			Per Capita Revenue
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	-	-	-	1,000	1,000	-	-	132	0.03
Madhesh	-	-	-	-	-	-	-	-	-
Bagmati	1,500	5	5	1,000	1,000	-	-	8	0.00
Gandaki	-	500	500	342	200	-	-	24	0.01
Lumbini	100	100	1,000	5,261	52	97	80	51	0.01
Karnali	-	-	-	-	7	-	-	-	-
Sudurpashchim	-	-	500	500	500	-	-	-	-
Total	**1,600**	**605**	**2,005**	**8,103**	**2,759**	**97**	**80**	**215**	**0.01**
Avg.	228.6	86.4	286.4	1,157.6	394.1	13.9	11.5	30.7	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 9

Figure 1 illustrates the projected versus actual agricultural income tax revenue between FY 2018/19 and FY 2023/24.

Figure 1: Revenue Collected from Agricultural Income Tax (in '00000, NPR)
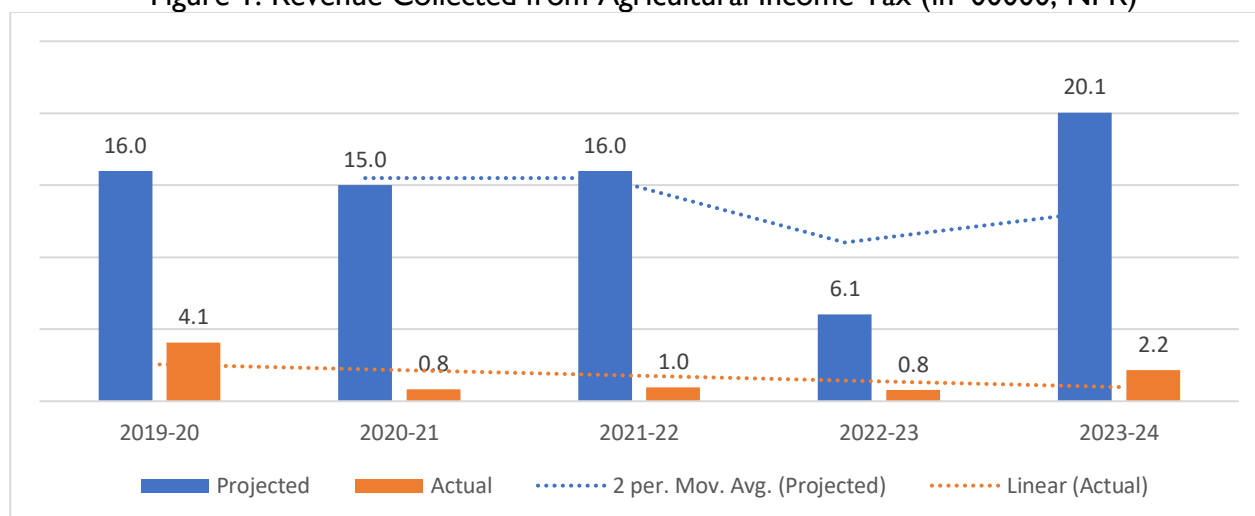
(b) Revenue from the Sale of Agricultural Products (Revenue Code No. 14211)

An assessment of revenue generated from the sale of agricultural products shows that provinces have made some improvements in revenue collection, but the results vary widely across provinces and lack long-term stability. The overall revenue has been increasing at varying degrees of increments across provinces. For example, Sudurpaschim Province did not prepare revenue projections, yet it collected NPR 9.1 million in FY 2023/24. Bagmati Province, benefiting from being the home to Kathmandu, where market management is stronger performed comparatively better than other provinces. This suggests that facilitating effective market systems can be an important step for provinces to broaden the tax base.

The analysis indicates that revenue from the sale of agricultural products has become a significant contributor to provincial internal revenue. However, persistent gaps between projected and actual revenue, capacity disparities among provinces, and the absence of long-term financial planning continue to hinder overall improvement.

Based on actual revenue for FY 2023/24, per capita revenue from this source was highest in Bagmati Province, followed by Lumbini Province, with the national average standing at NPR 2.73. Table 3 presents details of projected revenue from FY 2021/22 to FY 2025/26 alongside actual revenue from FY 2021/22 to FY 2023/24. Annex 10 provides projections from FY 2018/19 to FY 2025/26, along with actual revenue up to FY 2023/24.

Table 3: Revenue collected from the Sale of Agricultural Products (in '00000, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	55	55	55	60	60	51	48	49	0.98

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Madhesh	80	72	78	78	80	66	72	66	1.08
Bagmati	350	400	380	380	380	256	293	388	6.34
Gandaki	7	20	10	10	20	7	10	17	0.71
Lumbini	150	155	200	470	350	145	150	171	3.35
Karnali	-	14	18	19	21	15	19	15	0.90
Sudurpashchim	-	-	-	-	-	-	-	91	3.38
Total	**642**	**716**	**741**	**1,017**	**911**	**540**	**592**	**798**	**2.73**
Avg.	**92**	**102**	**106**	**145**	**130**	**77**	**85**	**114**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 10

Figure 2 further illustrates the trends in projected versus actual revenue from agricultural sales during FY 2018/19 to FY 2023/24.

Figure 2: Revenue collected from the Sale of Agricultural Products (in '00000, NPR)
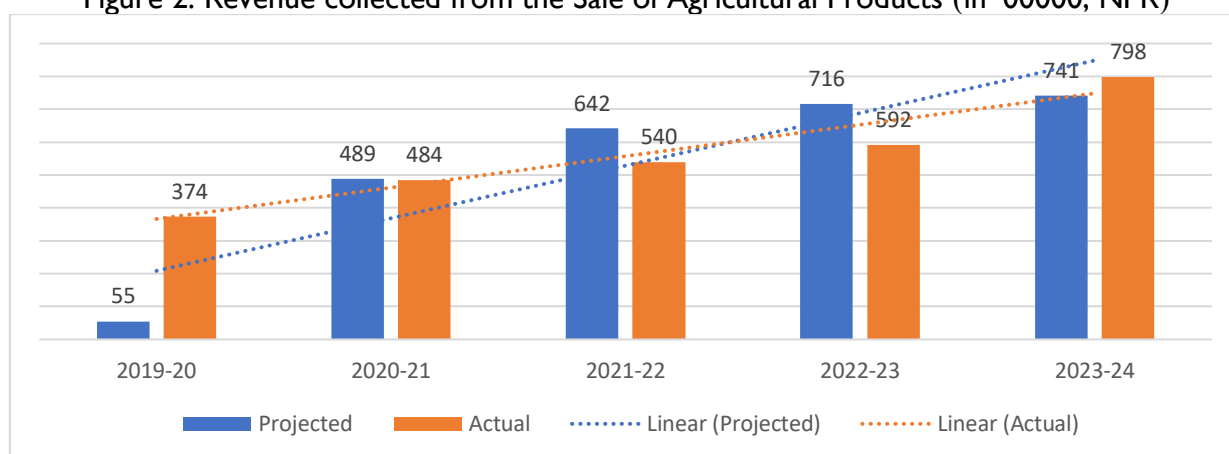
Source: Analysed from Annex 10

(c) Tourism and Trekking Fees (Revenue Codes 14191 and 14192)

Tourism and trekking fees were found to be collected only in Bagmati, Gandaki, and Karnali provinces. Although Karnali managed to collect tourism fees in FY 2022/23 , it failed to do so in FY 2023/24 . Other provinces, despite having potential, did not operationalize this revenue stream.

For example, Koshi Province could generate significant fees from areas like Kanchenjunga and Ilam, while Karnali has untapped potential in iconic sites such as Rara and Shey Phoksundo Lakes. Similarly, Sudurpaschim Province hosts renowned religious and cultural sites like Khaptad Baba, Ramaroshan, and Badimalika, yet the lack of promotion and management has prevented effective fee collection.

Although provincial governments hold exclusive rights to collect tourism and trekking fees, implementation remains weak. Among the seven provinces, only Bagmati, Gandaki, and Karnali

have partially collected such revenues, while Koshi, Madhesh, Lumbini, and Sudurpaschim remain entirely inactive.

The per capita FY 2023/24 income from this source was highest in Gandaki province, followed by Bagmati, while the overall national average stood at NPR 20. Details of estimated revenue for FYs 2021/22–2025/26 and actual revenues for FYs 2021/22–2023/24 are presented in Table 4. estimated revenues from FY 2018/19 through FY 2025/26, along with actual collections up to FY 2023/24, are given in Annex 11.

Table 4: Revenue Collected fro Tourism and Trekking Fees (in '00000, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	0	35	20	20	20	0	0	0	0
Madhesh	0	0	0	0	0	0	0	0	0
Bagmati	0	0	0	1.1	1.1	0	0	1.4	23
Gandaki	4	17	120	2.8	59.5	4	4.3	4.3	175
Lumbini	0	0	0	0	0	0	0	0	0
Karnali	0	9.8	0	10	10.9	0	3.4	0	0
Sudurpashchim	0	0	0	0	0	0	0	0	0
Total	**4**	**61.8**	**140**	**33.9**	**91.5**	**4**	**7.7**	**5.7**	**20**
Avg.	**0.57**	**8.83**	**20.00**	**4.84**	**13.07**	**0.57**	**1.10**	**0.81**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 11

The consolidated figures of projected versus actual tourism and trekking revenues are illustrated in Figure 3, which clearly shows that the collection has consistently fallen short of the projections.

Figure 3: Tourism and Trekking Fees (in '00000, NPR)
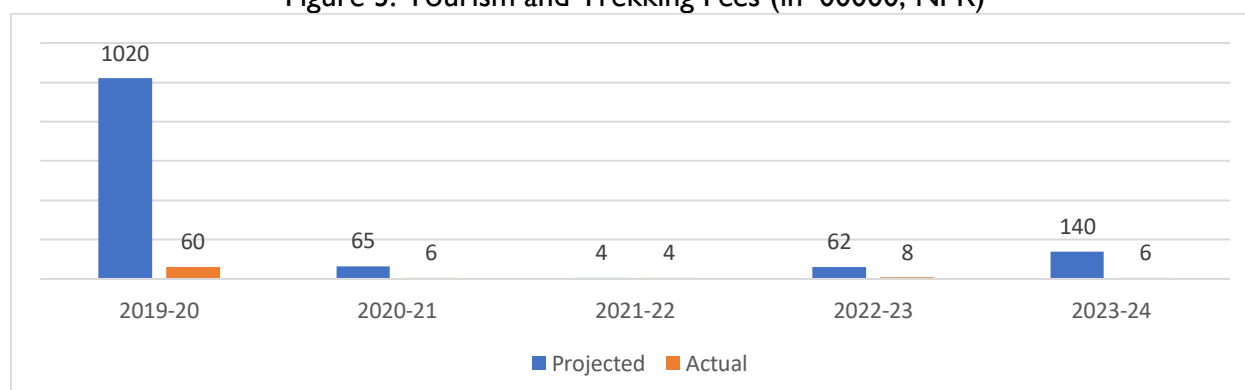
Source: Analysed from Annex 11

(d) Radio FM and Television Operation Fees (Revenue Codes 14254 and 14255)

Bagmati Province, being home to the most national-level television channels and high-capacity FM stations, has expanded its investment in information technology. Through digital systems, it has been collecting registration and renewal fees in a more systematic manner. In contrast, Gandaki, Madhesh, and Sudurpaschim provinces have not collected any revenue under this heading, nor have they made visible attempts to do so. The absence of projected figures itself indicates a lack of effort.

Karnali province stands out, having collected NPR 1.058 million in FY 2023/24 from radio, FM, and television operation fees. This demonstrates that other provinces too could tap into this sector as a viable revenue stream. However, several barriers continue to limit progress: unclear jurisdictional authority between the federal and provincial levels, weak technical capacity, irregular registration and renewal practices, lack of online regulatory mechanisms, and ineffective monitoring systems.

Meanwhile, the rapid rise of digital media - such as YouTube, Facebook Live, and mobile streaming applications, - remains largely outside the regulatory scope of provincial governments, further constraining potential revenue collection.

2023/24 Bagmati has the highest per capita revenue in this category, followed by Karnali. Projected revenues for FY 2078/79 to 2025/83 and actual revenues for FY 2078/79 to 2023/24 are provided in Table 5, while projected revenues from FY 2018/19 to 2025/83 and actual revenues up to FY 2023/24 are detailed in Annex 12.

Table 5: Radio FM and Television Operation Fees (in '000, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	25	8000	2000	1500	700	2079	352	1564	0.32
Madhesh	0	0	0	0	0	0	0	0	0.00
Bagmati	12488	11000	9900	9900	9900	8043	7109	6049	0.99
Gandaki	0	0	0	0		0	0	0	0.00
Lumbini	1000	1000	410	856	500	0	0	160	0.03
Karnali	0	330	2100	1978	1665	1535	1632	1058	0.63
Sudurpashchim	0	0	0	0	o	0	0	0	0.00
Total	**13513**	**20330**	**14410**	**14234**	**12765**	**11657**	**9093**	**8831**	**0.30**
Avg.	**1930**	**2904**	**2059**	**2033**	**1824**	**1665**	**1299**	**1262**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 12

Figure 4 illustrates both the projected and actual revenues from radio, FM, and television operation fees for FY 2018/19 to 2023/24.

Figure 4: Radio FM and Television Operation Fees (in '000, NPR)
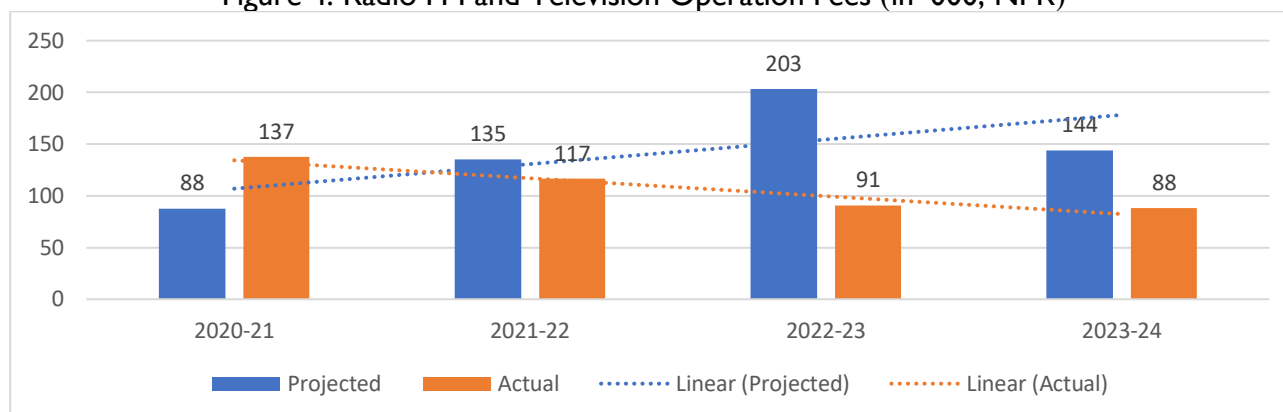
Source: Analysed from Annex 12

(e) Business Registration Fees (Revenue Code No. 14253)

Provincial governments also collect revenue under this heading. Except for Sudurpaschim and Karnali, all provinces, both, estimated and collected revenue in this category. Given Bagmati's status as the capital province and the hub of socio-economic activities, its high revenue from this source is natural, and its per capita revenue also tops the list. Interestingly, Sudurpaschim, despite making no prior projection for FY 2023/24, still collected revenue. Gandaki, on the other hand, collected far less than what it had projected. Overall, only 54.09% of the projected revenue was realized in FY 2023/24.

Table 6: Revenue Collected from Business Registration Fees (in '00000, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	1000	930	900	900	900	951	651	855	17
Madhesh	1400	1018	2000	2000	1000	1164	1018	748	12
Bagmati	8500	5500	5250	5250	5250	3757	3153	3076	50
Gandaki	551	1102	800	1900	9500	551	539	352	14
Lumbini	2000	1500	2500	2480	1500	741	725	716	14
Karnali	0	301	301	0	403	173	114	108	6
Sudurpashchim	0	0	0	0	0	0	0	503	19
Total	**13451**	**10351**	**11751**	**12530**	**18553**	**7337**	**6200**	**6357**	**22**
Avg.	**1922**	**1479**	**1679**	**1790**	**2650**	**1048**	**886**	**908**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 13

2023/24In terms of per capita Bagmati ranks the highest, followed by Sudurpaschim. Detailed projections from FY 2021/22 to 2025/26 and actual collections up to FY 2023/24 are provided in Table 6, while long-term estimates from FY 2018/19 to 2025/26, along with actual data up to FY 2023/24, are listed in Annex 13. Similarly, Figure 5 presents both estimated and actual revenue trends from FY 2018/19 to FY 2023/24, which show only modest gaps between projection and realization.

Figure 5: Revenue Collected from Business Registration Fees (in '00000, NPR)
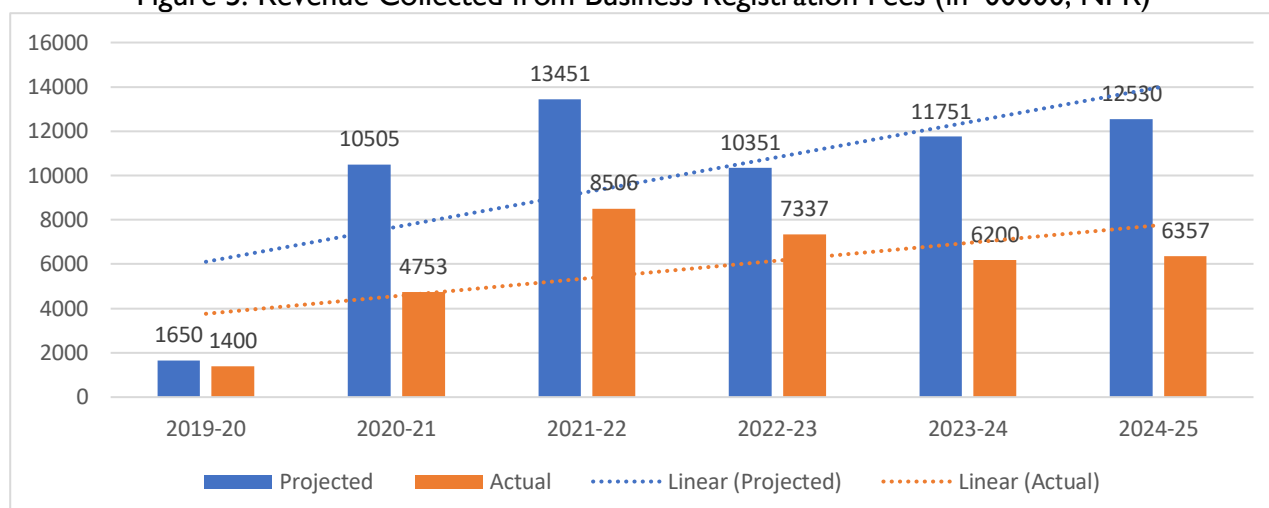
Source: Analysed from Annex 13

(f) Fees and Penalties (Revenue Code No. 14312)

The projected and actual collections in this heading is aligned. In fact, in FY 2023/24, provinces collected more than the projected revenue. On a per capita basis, Karnali province recorded the highest revenue, while Madhesh province ranked the lowest.[3] In some provinces, weak traffic and administrative penalty systems have led to revenue leakages, while in others, political interference has resulted in arbitrary exemptions of fines.

Strengthening systems, ensuring uniform penalty rates, adopting digital payment mechanisms, and enhancing legal clarity can make this revenue stream more transparent and useful. Additionally, raising public awareness and improving service delivery standards could help this heading contribute more effectively to strengthening internal revenue. Provinces can improve efficiency by keeping penalty and fee data updated and managing collections systematically. Revenue from penalties also supports discipline in service delivery, law enforcement, and institutional accountability.

Currently, traffic-related fines collected by the Traffic Police are deposited into the federal consolidated fund. The Natural Resources and Fiscal Commission has already recommended transferring such revenue into the provincial divisible fund. Data on projected revenues from FY 2021/22 to 2025/26 and actual revenues from FY 2021/22 to 2023/24 are presented in Table 7. Likewise, estimated revenues from FY 2018/19 to 2025/26 and actual collections up to FY 2023/24 are presented in Annex 14.

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[3] High revenue collection under "penalties" is not necessarily a positive indicator. It directly reflects issues of law compliance and enforcement: where legal systems are stronger, revenue from fines and penalties tends to decline.

Table 7: Fees and Penalties (in million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	3.2	5.1	5.1	5.1	5.1	6.7	11.5	28.2	5.69
Madhesh	7.6	7.2	8.0	8.0	8.0	5.9	14.2	4.4	0.71
Bagmati	8.0	9.0	9.5	30.8	43.2	11.6	26.1	34.1	5.57
Gandaki	31.3	202.0	30.2	98.1	65.1	31.4	46.1	56.0	22.70
Lumbini	60.1	30.1	17.7	63.5	220.4	25.9	21.9	15.7	3.07
Karnali	-	20.7	24.8	24.9	41.3	17.3	8.9	44.0	26.05
Sudurpashchim	1.8	9.0	18.9	20.2	22.1	6.1	18.8	12.4	4.60
Total	**112.1**	**283.1**	**114.1**	**250.7**	**405.1**	**104.8**	**147.4**	**194.8**	**6.68**
Avg.	**16.0**	**40.4**	**16.3**	**35.8**	**57.9**	**15.0**	**21.1**	**27.8**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 14

Figure 6 shows trends in judicial and administrative fines, penalties, and confiscations between FY 2018/19 and 2023/24. 2023/2024

Figure 6: Fees and Penalties (in million, NPR)
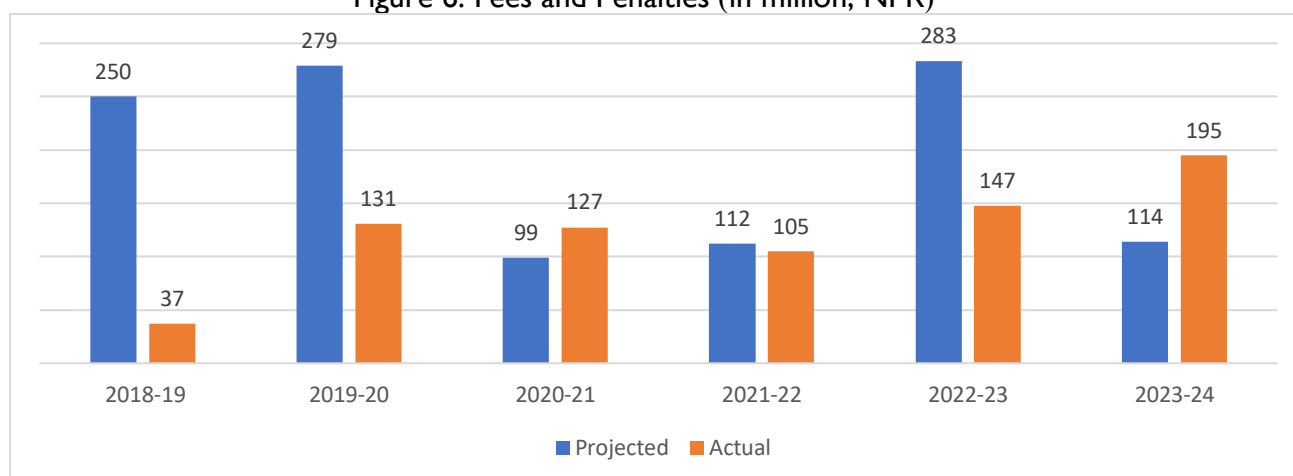
Source: Analysed from Annex 14

(g) Other Internal Revenues

"Other Internal Revenues" refers to collections from sources outside the major headings discussed earlier. Under this category, revenue comes from postal service charges, education-related income, examination fees, transportation sector revenues, import–export licensing fees, miscellaneous forestry revenues, proceeds from the sale of government property, income from other sales, private water tap charges, irrigation and canal usage fees, deposit confirmations, insurance claim receipts, as well as various service charges and sales.

Bagmati Province stands highest in per capita revenue collection under this heading, followed by Gandaki Province. Table No. 8 provides details of the estimated revenues for FY 2021/22–2025/26 alongside the actual collections for FY 2021/22–2023/24.

Table 6: Other Internal Revenues (in million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	310	557	446	447	511	365	307	264	53.21
Madhesh	373	6,899	556	556	557	122	190	355	58.06
Bagmati	3,488	3,316	1,925	2,201	2,202	363	681	2,625	429.14
Gandaki	1,439	1,012	1,009	1,242	1,744	-	0	479	194.21
Lumbini	2,150	2,167	2,853	2,462	2,697	505	300	232	45.29
Karnali	214	286	154	125	181	-	816	88	52.12
Sudurpashchim	372	545	313	201	527	70	183	481	178.49
Total	8,346	14,783	7,256	7,235	8,419	1,425	2,477	4,525	**155.15**
Avg.	1192	2112	1037	1034	1203	204	354	646	
Note: Per Capita Revenue is of 2023/24									

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/222023/24

Similarly, Figure No. 7 presents the trends in estimated revenues from FY 2021/22-2023/24 and actual revenues up to FY 2023/24 under "Other Internal Revenues."

Figure 7: Other Internal Revenues (in million, NPR)
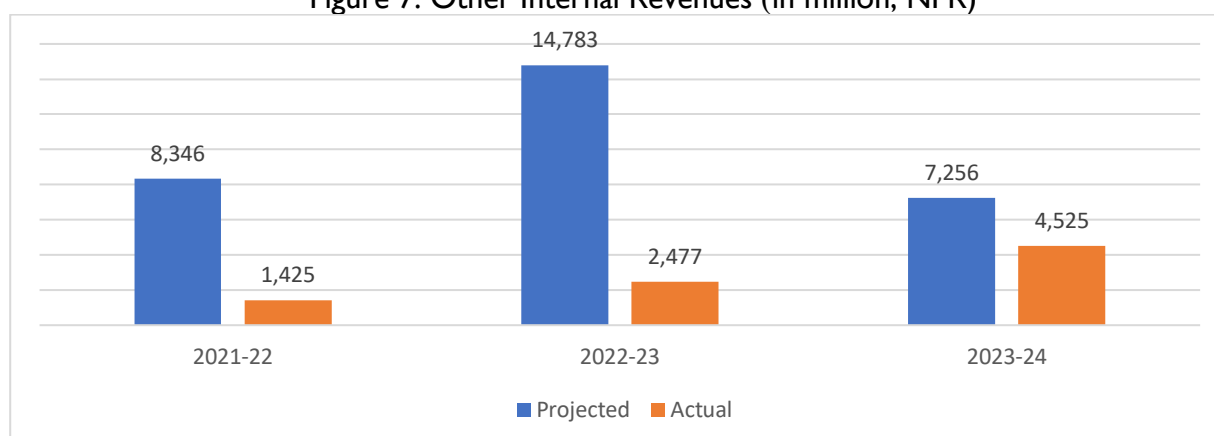
Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22-2023/24

Combined Revenue Ttitles exclusive to Provincial Governments: Among the revenue headings constitutionally assigned to provinces, agriculture-related taxes remain the weakest, whereas business registration fees are the strongest contributor. When comparing projected and actual collections across all headings, the reality is sobering: on average, less than 50 percent of projected revenues have been realized. This highlights the urgent need for provinces to adopt data-driven and program-based revenue estimation methods. refer to Table 9 for details.

Table 7: Total Revenue Collected from Tax Revenue of Exclusive Right (in '000, NPR)

Headings	Projected					Actual		
	2021-22	2022-23	2023-24	081-82	2025-26	2021-22	2022-23	2023-24
Tax on Agricultural Revenue	1600	605	2005	8103	2759	97	80	215
Revenue from Sale of Agricultural Products	64200	71600	74100	101700	91100	54000	59200	79800
Tourism and Trekking Fees	400	6200	14000	3400	9200	400	800	600
Radio FM and Television Operation Fees	13513	20330	14410	14234	12765	11657	9093	8831
Business Registration Fees	13451000	10351000	11751000	12530000	18553000	7337000	6200000	6357000
Fees and Penalties	112100	283100	114100	250700	405100	104800	147400	194800
Revenue from Other Titles	8346000	14783000	7256000	7235000	8419000	1425000	2477000	4525000
Total	21988813	25515835	19225615	20143137	27492924	8932954	8893573	11166246
Avg.	3141259	3645119	2746516	2877591	3927561	1276136	1270510	1595178

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

Based on revenue trends from FY 2078/79 to FY 2025/26 (see Figure 8):

- In FY 2021/22, revenue projections stood at Rs. 21.99 billion, but actual collections reached only Rs. 8.93 billion.
- In FY 2023/24, projections were Rs. 19.23 billion, while actual collections amounted to Rs. 11.17 billion.
- For FY 2025/26, projections have been raised to Rs. 27.49 billion.

Overall, FY 2023/24 collections amounted to just 42 percent of projected revenues, underlining both overestimation in revenue forecasts and weak provincial capacity to mobilize assigned sources

Figure 8: Revenue Collected from Tax Revenue Not Linked to Local Governments (in 10 million, NPR)
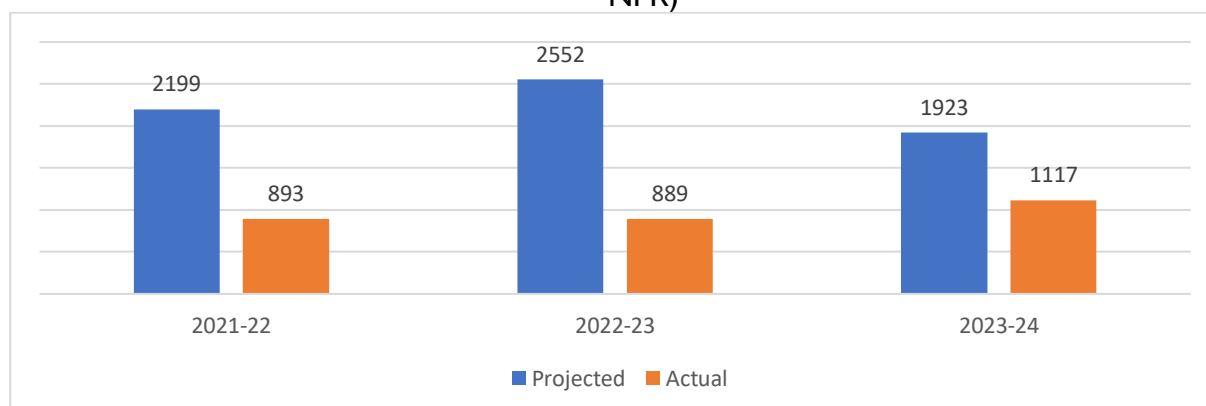
Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.1.1 Revenues Titles Shared with Local Governments

This section analyzes the revenue headings that are included in the shared lists of both provinces and local governments. The focus is on key sources such as vehicle taxes, land and property registration fees, entertainment taxes, advertisement taxes, and royalties collected from the sale of natural resources. These headings represent important streams of shared revenue, reflecting both provincial and local government interests, and form the basis for assessing revenue performance, distribution, and collection efficiency across different jurisdictions.

a) Vehicle Tax (Revenue Code Number 11456)

Vehicle tax serves as a stable and low-risk source of internal revenue for provincial governments. The province manages all aspects of rate-setting, regulation, and administration. Based on actual revenue in FY 2023/24, per capita collections are highest in Bagmati Province, followed by Gandaki. From FY 2078/79 to 2025/26, projected revenues and actual collections from FY 2021/22 to 2023/24 are detailed in Table 10 (refer to Annex 15 for details). 2023/24 Not all registered vehicles are taxed, and the absence of provincial police creates logistical issues in collecting revenue of this heading.

Table 8: Analysis of Revenue Collected from Vehicle Tax (in 10 million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	10.6	13.2	13.5	14.1	18.4	11.9	11.9	13.9	280
Madhesh	11.0	32.1	28.0	28.0	30.0	21.1	20.1	14.4	235
Bagmati	65.0	72.5	72.5	75.0	82.5	58.7	61.5	61.2	1,000
Gandaki	0.0	10.8	12.0	13.3	13.8	-	१०.८	११.६	४७०
Lumbini	22.0	20.0	20.0	48.0	29.0	15.4	41.4	17.5	342
Karnali	1.9	1.4	2.5	1.7	1.5	1.6	1.2	1.4	84
Sudurpashchim	4.5	8.9	6.9	8.5	5.6	5.6	6.6	7.0	260
Total	**115.0**	**159.0**	**155.4**	**188.7**	**180.8**	**114.2**	**153.5**	**127.0**	**396**
Avg.	**16.4**	**22.7**	**22.2**	**27.0**	**25.8**	**16.3**	**21.9**	**18.1**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 15

Projected and actual collections from FY 2018/19 to 2023/24 are shown in Figure 9.

Figure 9: Analysis of Revenue Collected from Vehicle Tax (in 10 million, NPR)
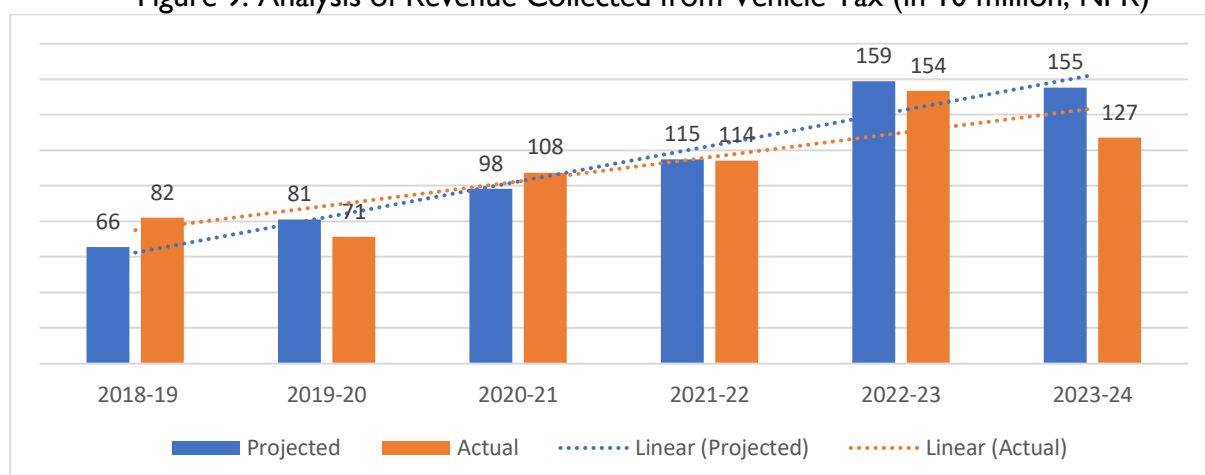
Source: Analysed from Annex 15

b) House and Land Registration Fee (Revenue Code Number 11315)

2021/22 The data shows that revenue from house and land registration has grown overall, though unevenly across provinces. Bagmati consistently dominates both projected and actual revenue, with the highest per capita (NPR 897), reflecting its urban real estate demand. Madhesh recorded a sharp rise in 2023/24, surpassing projections, while Koshi and Lumbini maintained steady but moderate growth. Gandaki saw fluctuations, with actuals dipping before recovery. Karnali and Sudurpashchim collected the least, highlighting weaker property markets. On average, provinces' actual collections lagged behind projections except in a few years, with national per capita revenue standing at NPR 376, reflecting regional disparities. (See Annex 16 for more details)

Table 9: Analysis of Revenue Collected from House and Land Registration (in 100 million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	12.5	15.0	14.5	14.5	15.0	16.5	10.3	12.6	253
Madhesh	5.0	-	35.0	35.0	34.5	15.0	18.7	17.3	283
Bagmati	68.5	78.5	67.5	77.0	77.0	98.4	54.9	54.9	897
Gandaki	10.4	10.0	1.1	10.2	12.5	10.4	7.0	7.6	308
Lumbini	12.5	18.0	20.0	23.0	23.0	14.8	11.1	12.1	236
Karnali	1.2	1.3	1.5	1.4	2.0	1.4	1.0	1.3	76
Sudurpashchim	2.6	5.1	4.7	5.0	4.8	4.1	4.0	3.9	145
Total	112.7	127.9	144.3	166.0	168.8	160.6	107.1	109.7	376
Avg.	16.1	18.3	20.6	23.7	24.1	22.9	15.3	15.7	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 16

Figure 10 shows minimal variance between projected and actual revenue.

Figure 10: Revenue Collected from House and Land Registration (in '00000, NPR)
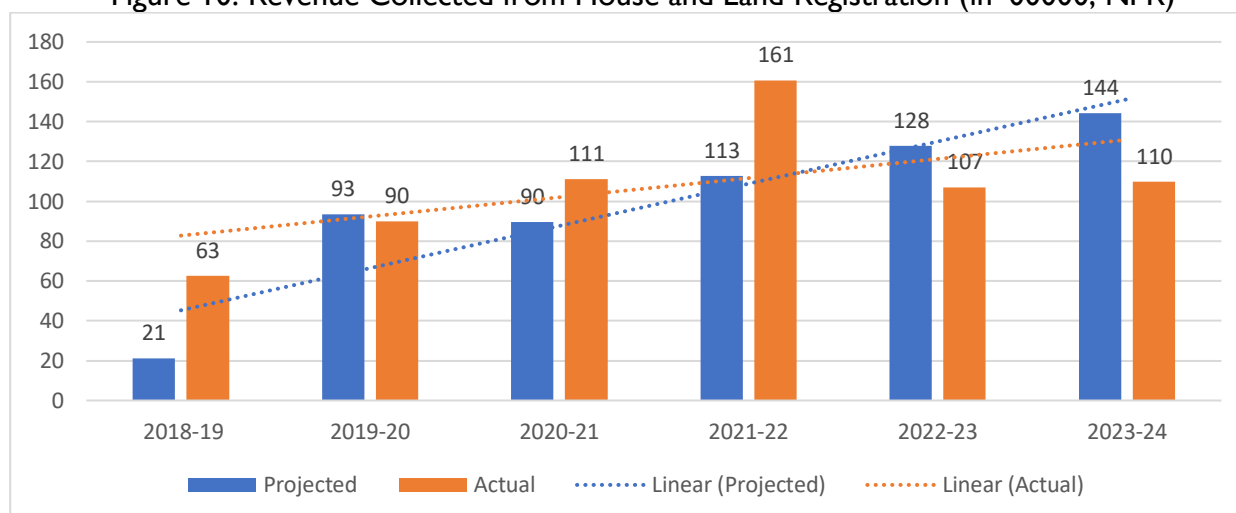
b) Entertainment Tax (Revenue Code Number 11471)

Across FY 2021/22–2025/26, projected revenues and actuals from FY 2021/22–2023/24 are presented in Table 12 and Annex 17. In FY 2023/24, all provinces together collected only NPR 2 million. Madhesh and Karnali Provinces reported no collections, and their estimates were negligible. In terms of per capita revenue Gandaki records highest followed by Bagmati province. Bagmati's higher urban density and capital status explain its slightly higher revenue, but it remains inadequate. There is potential for significant collection from the Kathmandu Valley. Provincial officials reportedly coordinate poorly with municipalities, which often deposit collected revenues into local funds instead of sharing, reducing provincial revenue.

Table 10: Details of Revenue Generated from Entertainment Tax (in '00000, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	5	25	10	10	30	0	7	24	0.48
Madhesh	1	-	-	-	-	-	-	-	-
Bagmati	3,500	50	135	535	669	72	58	70	1.15
Gandaki	-	50	50	70	50	-	14	54	2.20
Lumbini	75	15	5	113	110	9	43	52	1.02
Karnali	-	-	-	-	5	-	-	0	o
Sudurpashchim	10	10	10	10	10	-	0	1	0.04
Total	3,591	150	210	738	874	81	123	201	0.69
Avg.	513	21	30	105	125	12	18	29	
Note: Per Capita Revenue is of 2023/24									

Figure 11 illustrates the low collection compared to estimates.

Figure 11: Details of Revenue Generated from Entertainment Tax (in '0000, NPR)
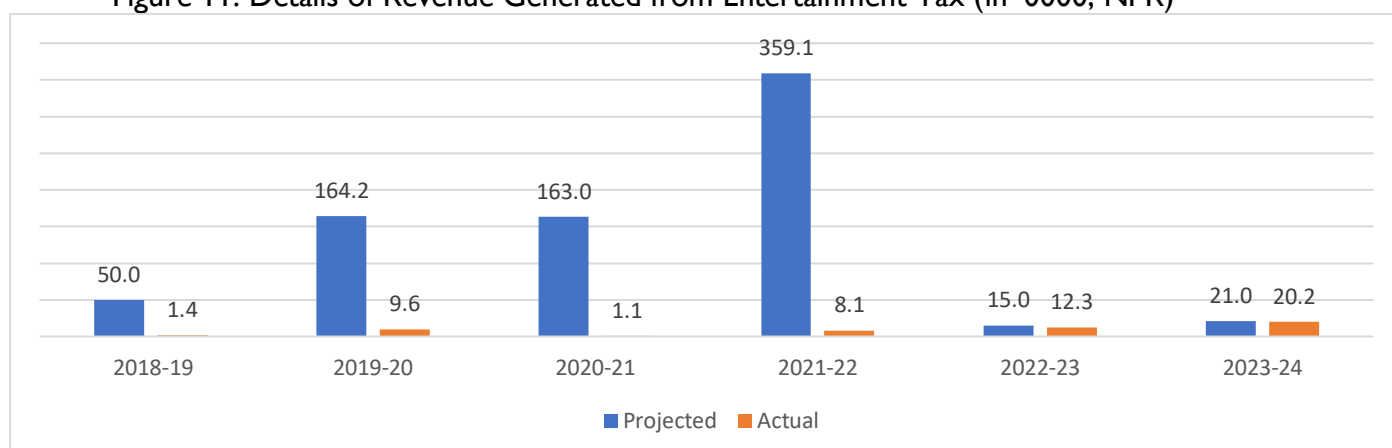
(c) Advertisement Tax (Revenue Code No. 11472)

Advertisement tax (Revenue Code 11472) shows per capita revenue highest in Bagmati, followed by Koshi Province. The projected revenues for FY 2021/22–2025/26 and actuals for FY 2021/22–2023/24 are in Table 13. All provinces collected NPR 3 million in FY 2023/24, aligning with projections. Karnali has yet to generate revenue, and Madhesh collections remain minimal. Significant discrepancies exist between estimated and actual collections, particularly in Madhesh, Gandaki, Karnali, and Sudurpashchim Provinces. Karnali's zero collection indicates weak tax administration. (see Annex 18 for details)

Table 11: Analysis of Revenue Collected from Advertisement Tax (in '00000, NPRs)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	20	95	50	60	65	45	57	70	1.41
Madhesh	1	6	10	10	50	-	6	2	0.03
Bagmati	3,500	300	175	190	238	491	171	178	2.91
Gandaki	5	100	30	23	23	5	3	14	0.57
Lumbini	100	20	25	181	180	18	69	28	0.55
Karnali	-	-	-	-	20	-	-	-	o
Sudurpashchim	5	5	17	18	3	9	16	13	0.48
Total	**3,631**	**527**	**307**	**482**	**578**	**567**	**321**	**304**	**1.04**
Avg.	**519**	**75**	**44**	**69**	**83**	**81**	**46**	**43**	
Note: Per Capita Revenue is of 2023/24									

Figure 12 shows estimates versus actuals.

Figure 12: Revenue Collected from Advertisement Tax (in '00000, NPRs)
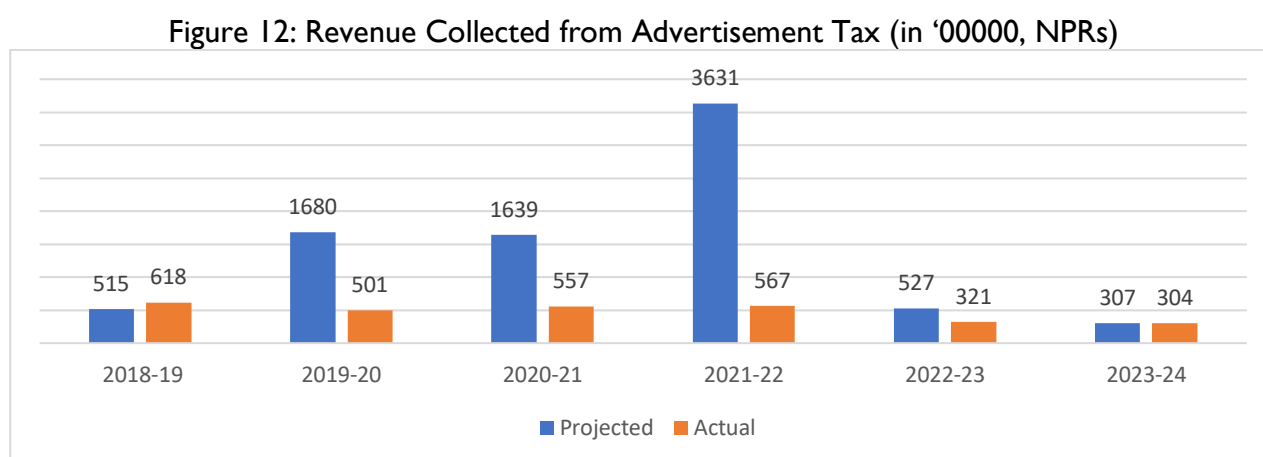
Source: Analysed from Annex 18

(d) Revenue Collected from the Sale of Stone, Gravel, and Sand (Revenue Code 14157)

Bagmati province has the highest per capita in this heading followed by Lumbini. In FY 2023/24, NPR 141 million was collected, about 62% of the projected amount. Bagmati had the highest collections, while Sudurpashchim had the lowest (see Table 14). Field visits indicate local governments often fail to remit the legally mandated 40% share to provinces. Implementation gaps, collusion in contract awards, and inadequate policing and monitoring contribute to shortfalls. Provincial coordination with local governments is needed to ensure full compliance. Ministry of Finance (Federal) notes that some municipal officials' collusion with contractors further reduces expected revenue.

Table 12: Revenue Collected from the Sale of Stone, Gravel, and Sand (in 10 million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	10.0	15.0	20.0	30.0	49.3	28.0	15.3	25.0	**504**
Madhesh	1.0	-	35.0	35.0	5.0	1.5	14.8	3.3	**53**
Bagmati	275.0	100.0	100.0	140.0	140.0	67.3	65.9	64.3	**1,051**
Gandaki	14.0	15.0	21.5	27.2	27.5	14.3	7.1	13.2	**534**
Lumbini	60.0	40.0	50.0	59.5	50.0	25.0	23.1	32.8	**641**
Karnali	-	1.7	2.9	2.8	7.1	3.0	1.1	2.2	**133**
Sudurpashchim	0.4	4.0	0.0	2.8	6.1	0.3	0.2	0.8	**31**
Total	**360.4**	**175.7**	**229.4**	**297.3**	**285.0**	**139.5**	**127.4**	**141.7**	**486**
Avg.	**51.5**	**25.1**	**32.8**	**42.5**	**40.7**	**19.9**	**18.2**	**20.2**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 19

Figure 13 shows minimal variance between projected and actual revenue.

Figure 13: Revenue Collected from the Sale of Stone, Gravel, and Sand (in 10 million, NPR)
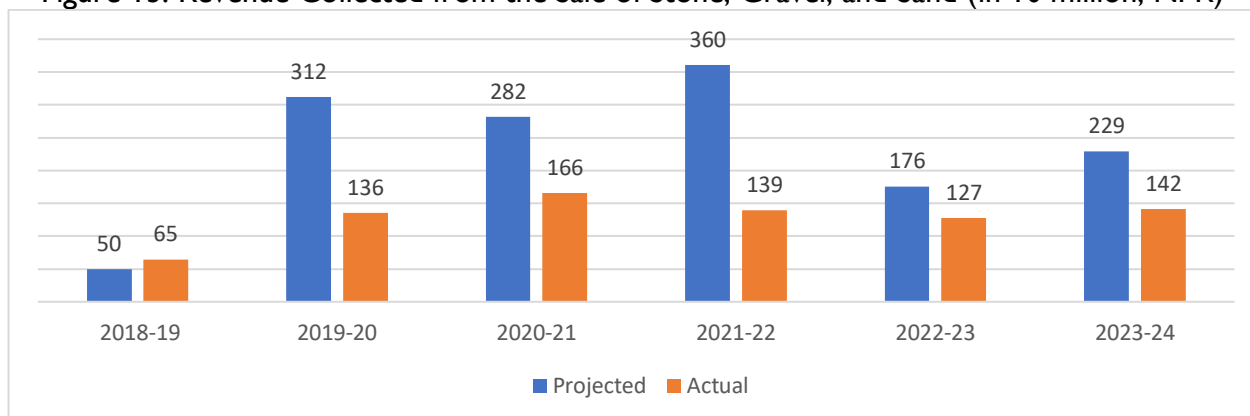
3.1.2 Total Revenue Shared with Local Governments

In the provincial revenue landscape, the largest contributor is vehicle tax. Among all revenue categories, the gap between projected and actual collection is smallest for this tax. Following vehicle tax, land registration fees contribute significantly, with minimal difference between projected and actual revenues. In contrast, collections from advertisement and entertainment taxes are considerably below estimates. Details of all these revenue categories are provided in Table 15. According to this table, in FY 2023/24, provinces collected NPR 2.398 billion from revenue shared with local governments, which is about 74% of the projected amount, translating to NPR 822 per capita.

Table 13: Total Revenue Shared with Local Levels (in 100 million, NPR)

Headings	Projected				Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2021-22	2022-23	2023-24	
Vehicle Tax	115.0	159.0	155.4	188.7	114.2	153.5	115.4	396
House and Land Registration Fee	112.7	127.9	144.3	166.0	160.6	107.1	109.7	376
Entertainment Tax	3.6	0.2	0.2	0.7	0.1	0.1	0.2	1
Advertisement Tax	3.6	0.5	0.3	0.5	0.6	0.3	0.3	1
Dahattar-Bahattar	36.0	17.6	22.9	29.7	13.9	12.7	14.2	49
Total	**270.9**	**305.2**	**323.1**	**385.6**	**289.4**	**273.7**	**239.8**	**822**
Avg.	**38.7**	**43.6**	**46.2**	**55.1**	**41.3**	**39.1**	**34.3**	
Note: Per Capita Revenue is of 2023/24								

Figure 14 presents aggregated estimated and actual revenues from FY 2021/22 to 2024/25, showing little variance between projections and actual collections

Figure 14: Total Revenue Shared with Local Levels (in 100 million, NPR)
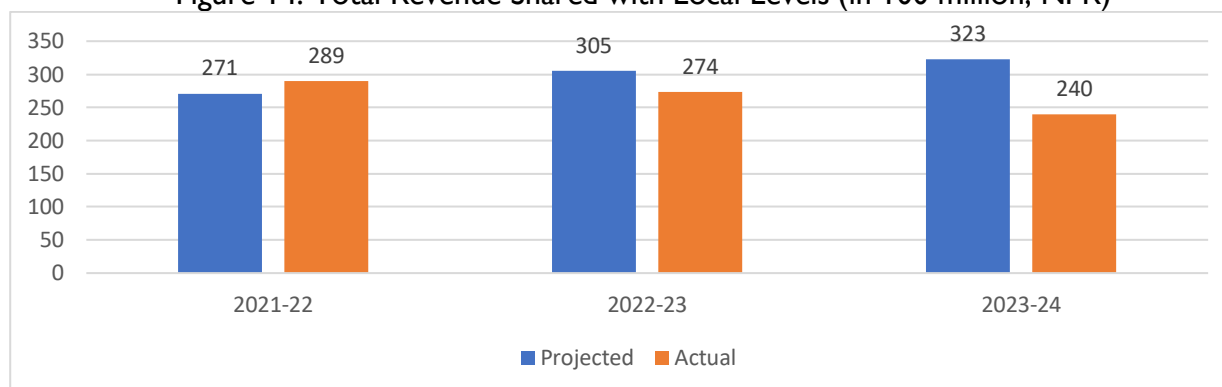
Source: Analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.1.3 Total Local Revenue of Provinces

Provincial local revenue is analyzed in two parts: revenue shared with local governments and revenue exclusive to provincial government. A consolidated overview is presented in Table 16. In FY 2023/24, the province collected NPR 3.514 billion in total local revenue. Of this, NPR 1.116 billion (31.77%) was exclusive to provincial government, while NPR 2.398 billion (68.23%) was revenue shared with local governments. Within total OSR tax revenue, vehicle tax contributed the most at 32.83%, followed closely by land registration fees at 31.21%. Business registration fees contributed 18%, while agricultural tax contributed the least. Based on FY 2023/24, provinces collected only about 68% of the projected local revenue.

Table 14: Provincial Local Revenue (in '000, NPR)

Headings	Projected					Actual		
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24
Revenue Exclusive to Provincial Government								
Tax on Agricultural Revenue	1600	605	2005	8103	2759	97	80	215
Revenue from Sale of Agricultural Products	64200	71600	74100	101700	91100	54000	59200	79800
Tourism and Trekking Fees	400	6200	14000	3400	9200	400	800	600
Radio FM and Television Operation Fees	13513	20330	14410	14234	12765	11657	9093	8831
Business Registration Fees	13451000	10351000	11751000	12530000	18553000	7337000	6200000	6357000
Fees and Penalties	112100	283100	114100	250700	405100	104800	147400	194800
Revenue from Other Headings	8346000	14783000	7256000	7235000	8419000	1425000	2477000	4525000
Total	**21988813**	**25515835**	**19225615**	**20143137**	**27492924**	**8932954**	**8893573**	**11166246**
Total Revenue Shared with Local Governments								

Headings	Projected					Actual		
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24
Vehicle Tax	11500000	15900000	15540000	18870000	18080000	11420000	15350000	11540000
House and Land Registration Fee	11270000	12790000	14430000	16600000	16880000	16060000	10710000	10970000
Entertainment Tax	360000	20000	20000	70000	90000	10000	10000	20000
Advertisement Tax	363100	52700	30700	48200	57800	56700	32100	30400
Dahattar-Bahattar	3600000	1760000	2290000	2970000	2850000	1390000	1270000	1420000
Total	27093100	30522700	32310700	38558200	37957800	28936700	27372100	23980400
Grand Total	49081913	56038535	51536315	58701337	65450724	37869654	36265673	35146646
Avg.	7011702	8005505	7362331	8385905	9350103	5409951	5180810	5020949

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

Figure 15 illustrates aggregated estimated and actual revenues from FY 2021/22 to 2025/26, with minimal differences between projections and actual collections.

Figure 15: Provincial Local Revenue (in 10 million, NPR)
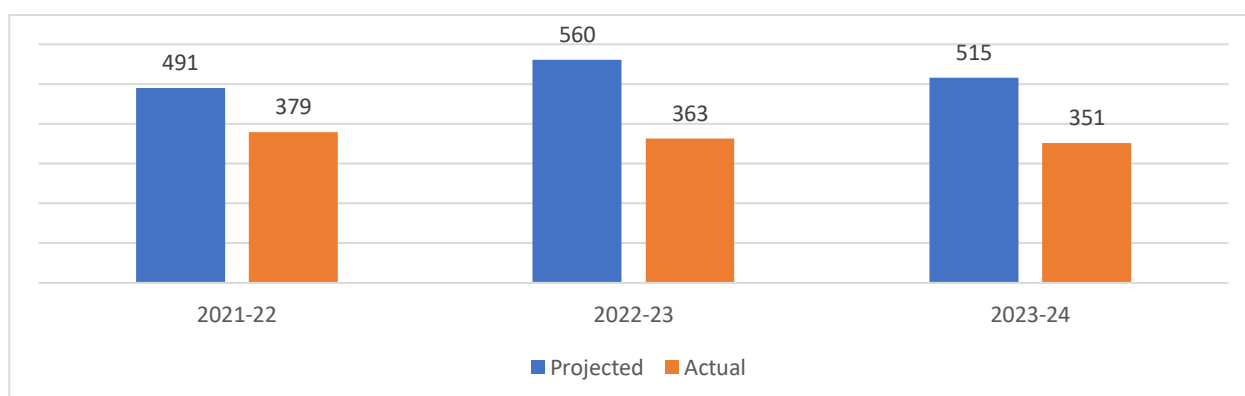
Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–23/24

3.2 Royalty Revenue Overview

3.2.1 Forest Royalty (Revenue Code 14153)

In FY 2023/24, per capita forest royalty revenue was highest in Madhesh Province, followed by Koshi Province. Table 17 provides details of estimated revenue from FY 2078/79 to 2025/83 and actual revenue from FY 2021/22 to 2023/24, while Annex 20 gives a comprehensive overview from FY 2018/19 to 2025/26. In FY 2023/24, provinces collected NPR 433 million in forest royalties, with Madhesh Province receiving the largest share. Overall, actual collections exceeded projections. The Nepal government deposits royalties into a federal divisible fund, which is then distributed to the federal, provincial, and local levels based on recommendations from the National Natural Resources and Fiscal Commission.

Table 15: Analysis of Revenue Collected from Forest Royalty (in 10 million, NPR)

Province	Projected					Actual			Per Capita Royalty (NPR)
	078/79	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	3.5	4.0	7.0	7.7	9.0	6.8	-	8.6	17.41
Madhesh	15.0	-	5.0	5.0	7.0	2.2	2.2	14.4	23.56
Bagmati	4.7	3.1	4.0	15.8	15.8	4.0	-	7.8	12.67
Gandaki	1.7	1.9	6.2	4.3	5.8	5.4	5.4	4.3	17.29
Lumbini	10.0	4.5	7.5	9.1	9.5	11.0	7.6	3.5	6.75
Karnali	-	-	2.9	2.4	2.8	2.7	1.9	2.4	14.34
Sudurpashchim	2.8	3.5	5.7	3.1	4.4	2.9	2.9	2.4	8.79
Total	**37.7**	**16.9**	**38.3**	**47.4**	**54.3**	**35.0**	**20.0**	**43.3**	**14.85**
Avg.	**5.4**	**2.4**	**5.5**	**6.8**	**7.8**	**5.0**	**2.9**	**6.2**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 20

Annex 4 lists the criteria for distribution. Among the seven provinces, Madhesh receives the largest portion of forest royalties, while Karnali and Sudurpashchim provinces receive minimal amounts. Since Madhesh Province does not generate royalties from other natural resources, it is imperative to prioritize forest conservation. Figure 16 illustrates estimated versus actual forest royalty collection from FY 2018/19 to 2023/24, showing minimal variance except in FY 2018/19.

Figure 16: Revenue Collected from Forest Royalty (in 10 million, NPR)
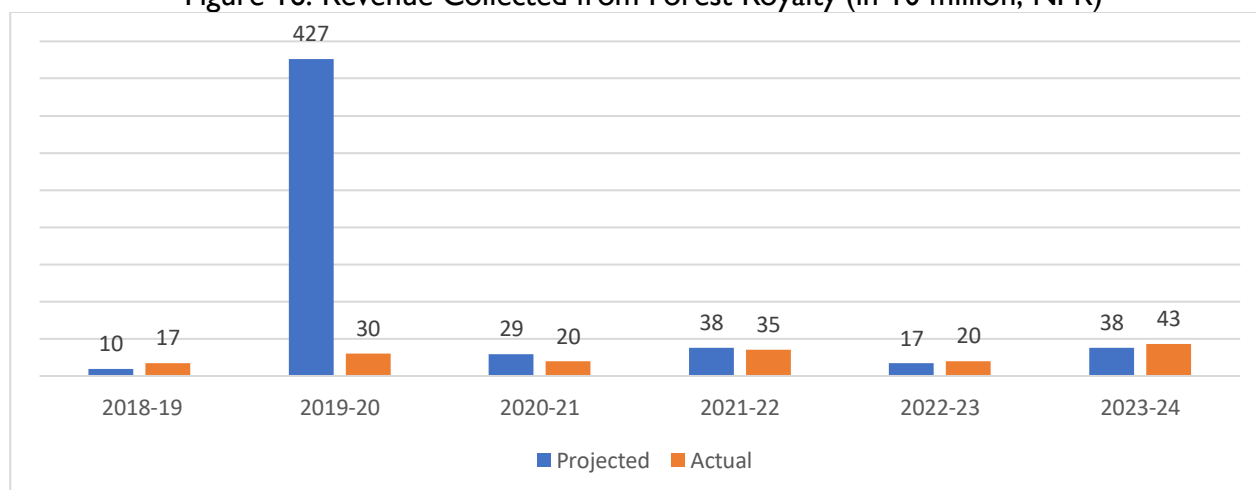
Source: Analysed from Annex 20

3.2.2 Electricity Royalty (Revenue Code 14156)

Per capita electricity royalty revenue in FY 2023/24 was highest in Gandaki Province, followed by Bagmati Province. Table 18 shows estimated revenue from FY 2078/79 to 2025/83 and actual revenue from FY 2021/22 to 2023/24, while Annex 21 provides a complete record from FY 2018/19 to 2025/26. Distribution criteria are listed in Annex 4. In FY 2023/24, provinces collected

NPR 789 million from electricity royalties, with Bagmati Province receiving the largest share and Madhesh Province receiving none. The concentration of large hydropower projects like Bhote Koshi, Upper Tamakoshi, and Rasuwagadhi in Bagmati, and Kaligandaki, Nilgiri Khola, and Super Marsyangdi in Gandaki explains the high collections there. Under the Inter-Governmental Fiscal Management Act, 2015, royalties are distributed based on the recommendations of the National Natural Resources and Fiscal Commission. Currently, only areas with hydropower projects receive royalties; revising the law to include affected areas, substations, and transmission zones could enable Madhesh Province to receive some revenue.

Table 16: Electricity Royalty (in 10 million, NPR)

Province	Projected					Actual			Per Capita Royalty (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	3.8	4.8	6.0	5.2	6.0	6.0	-	5.8	117
Madhesh	-	14.8	-	-	-	-	-	-	-
Bagmati	34.6	38.5	40.3	35.7	39.2	36.0	-	35.7	583
Gandaki	22.9	29.0	32.8	38.5	14.3	25.1	25.1	27.8	1127
Lumbini	12.5	8.5	7.5	23.0	20.0	16.2	8.3	8.7	170
Karnali	-	-	0.2	0.2	0.2	0.2	0.2	0.1	3
Sudurpashchim	1.1	1.3	0.8	1.0	3.6	1.1	1.1	0.9	32
Total	**74.9**	**96.8**	**87.7**	**103.5**	**83.3**	**84.6**	**34.6**	**78.9**	**270**
Avg.	10.7	13.8	12.5	14.8	11.9	12.1	4.9	11.3	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 21

Figure 17 shows estimated versus actual electricity royalty collections, with minimal differences

Figure 17: Electricity Royalty (in 10 million, NPR)
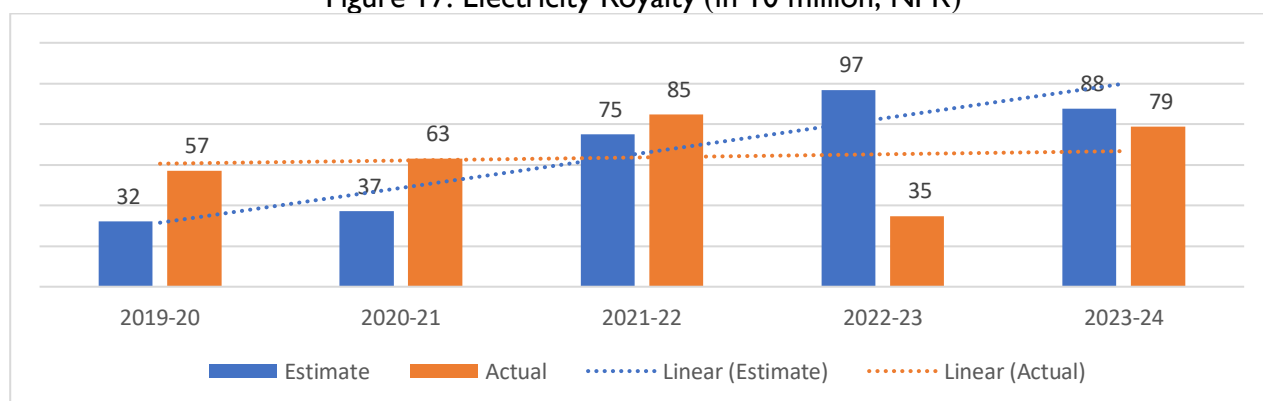
Source: Analysed from Annex 21

3.2.3 Mining Royalty (Revenue Code 14154)

In FY 2023/24, per capita mining royalty revenue was highest in Lumbini Province, followed by Bagmati Province. Table 19 provides estimated revenue for FY 2021/22 to 2025/26 and actual

revenue for FY 2021/22 to 2023/24, while Annex 22 presents data from FY 2018/19 to 2025/26. In FY 2023/24, provinces collected NPR 129.7 million from mining royalties, which is only about 62% of the projected revenue. Lumbini Province leads in mining royalties due to the presence of stone, limestone, and cement industries, while high petroleum extraction in Dailekh gives Karnali Province high potential. Distribution criteria are outlined in Annex 4.

Table 17: Revenue Collected from Mining Royalty (in '00000, NPR)

Province	Projected					Actual			Per Capita Royalty (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	125.0	250.0	100.0	155.0	181.1	107.8	0.0	173.7	3.50
Madhesh	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Bagmati	265.2	542.0	580.1	411.3	452.5	572.1	0.0	411.3	6.72
Gandaki	7.8	11.5	8.4	48.1	25.0	23.0	23.0	21.5	0.87
Lumbini	1750.0	1700.0	1400.0	1807.3	1200.0	2819.8	1339.6	684.6	13.37
Karnali	0.0	0.0	12.4	10.5	12.0	10.4	8.1	5.7	0.34
Sudurpashchim	1.8	8.0	1.9	0.4	0.7	3.1	3.1	0.4	0.01
Total	**2149.8**	**2511.5**	**2102.8**	**2432.5**	**1871.3**	**3536.1**	**1373.8**	**1297.1**	**4.45**
Avg.	**716.6**	**837.2**	**700.9**	**810.8**	**623.8**	**1178.7**	**457.9**	**432.4**	
Note: Per Capita Revenue is of 2023/24									

Source: Analysed from Annex 22

Figure 18 compares estimated and actual mining royalty revenue, showing minimal differences despite low overall collections.

Figure 18: Revenue Collected from Mining Royalty (in '00000, NPR)
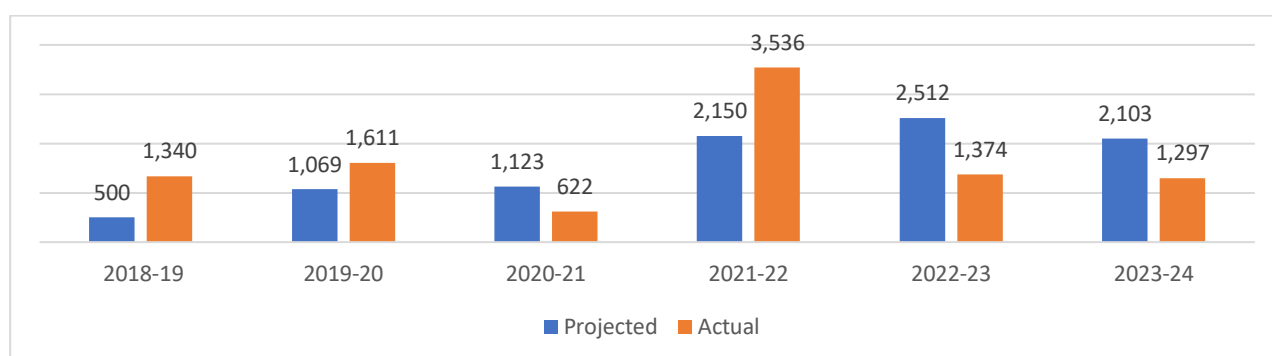
Source: Analysed from Annex 22

3.2.4 Mountaineering Royalty (Revenue Code 14158)

Table 20 details royalties collected from mountaineering activities. In FY 2023/24, provinces collected NPR 215.4 million, with NPR 174.6 million allocated to Koshi Province and NPR 21.3 million to Gandaki Province. Mountaineering royalties are higher in regions with more mountains and climbing activity, explaining Koshi Province's lead due to Everest's popularity. Despite opening

414 mountains for climbing, infrastructure limitations and lack of promotion restrict climbers to only 34 mountains, limiting revenue collection.

Table 18: Mountaineering Royalty (in '000, NPR)

Province	Projected					Actual			Per Capita Royalty (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	125000	137500	110000	155815	182096	110217	-	174619	35.2
Madhesh	-	-	-	-	-	-	-	-	-
Bagmati	2841	14482	14482	18802	18801	11539	-	18802	3.07
Gandaki	5504	15350	9158	48100	20527	11192	11191	21385	8.67
Lumbini	150	-	80	42	35	78	78	16	0
Karnali	-	-	530	446	513	487	346	504	0.3
Sudurpashchim	10	500	72	52	89	9	10	43	0.02
Total	**133505**	**167832**	**134322**	**223257**	**222061**	**133522**	**11625**	**215369**	**7.38**
Avg.	**19072**	**23976**	**19189**	**31894**	**31723**	**19075**	**1661**	**30767**	
Note: Per Capita Revenue is of 2023/24									

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.2.5 Total Royalty Revenue Shared

Table 21 provides an integrated summary of royalties received by provinces. In FY 2023/24, the largest share came from electricity royalties, followed by forest royalties. Total royalty revenue across all categories amounted to NPR 157 million. Overall, actual collections closely matched projected amounts, indicating effective revenue estimation and collection.

Table 19: Details of Total Royalty (in 100 million, NPR)
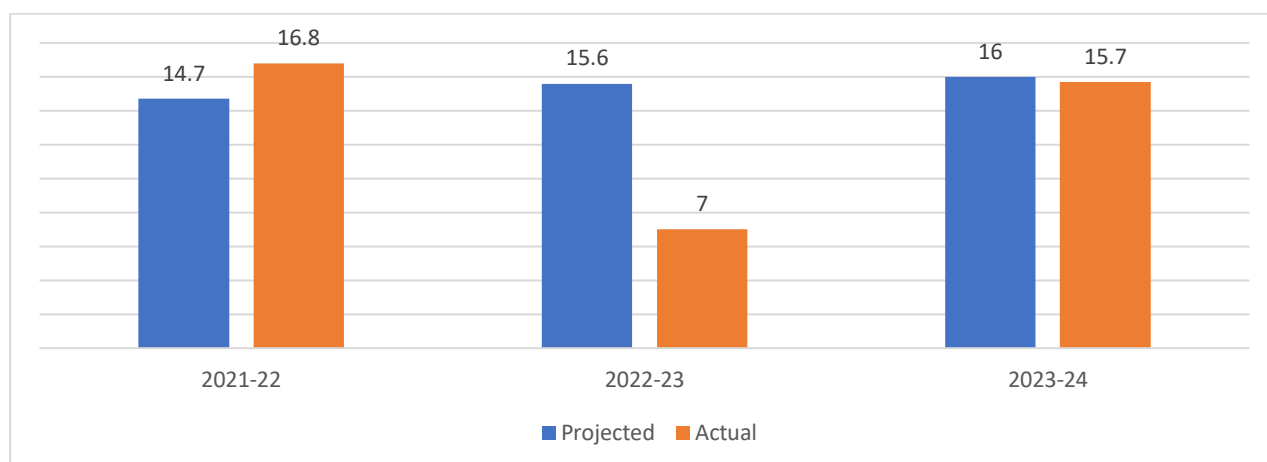
Royalty	Estimated Revenue				Actual Revenue			Per Capita Royalty (NPR)
	2021-22	2022-23	2023-24	2024-25	2021-22	2022-23	2023-24	
Forest	3.8	1.7	3.8	4.7	3.5	2.0	4.3	1.5
Electricity	7.5	9.7	8.8	10.4	8.5	3.5	7.9	2.7
Mines and Minerals	2.1	2.5	2.1	2.4	3.5	1.4	1.3	0.4
Mountaineering	1.3	1.7	1.3	2.2	1.3	0.1	2.2	0.7
Total	**14.7**	**15.6**	**16.0**	**19.8**	**16.8**	**7.0**	**15.7**	**5.4**
Avg.	2.1	2.2	2.3	2.8	2.4	1.0	2.2	
Note: Per Capita Revenue is of 2023/24								

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.3 Revenue from Shared Distribution

Under the Inter-Governmental Fiscal Management Act, 2015, provinces are legally entitled to receive 15% of the value-added tax (VAT) and excise duties collected from domestic production. The National Natural Resources and Fiscal Commission is responsible for preparing the formula for provincial distribution, with the detailed formula outlined in Annex 4. In FY 2023/24, provinces received NPR 5.845 billion under this category. Since revenue distribution under this title is based directly on the amount collected, the province plays a limited role in collection itself. Detailed information is presented in Table 22.

Table 20: Income from Revenue Sharing (in 100 million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	91.०	116.3	114	121	124	97.7	91.5	89.2	1798
Madhesh	95.9	25.5	136	136	123.6	101.6	85.4	96.5	1578
Bagmati	97.7	118.4	111.4	123.1	128.4	99.5	93.1	90.7	1484
Gandaki	75	92.4	90.5	96.1	97.9	77.6	73.4	70.8	2872
Lumbini	95.3	115.5	113.2	120.2	118.7	97.1	89.2	88.6	1729
Karnali	0	90.2	88.1	93.6	102.7	79.7	65.2	75	4440
Sudurpashchim	79.3	96.1	94.1	99.9	98.7	77.8	79.8	73.6	2733
Total	**534.3**	**654.4**	**747.3**	**789.9**	**794**	**631**	**577.6**	**584.5**	**2004**
Avg.	76.3	93.5	106.8	112.8	113.4	90.1	82.5	83.5	
Note: Per Capita Revenue is of 2023/24									

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

Figure 21 shows the estimated versus actual revenue from shared distribution for FY 2021/22to 2025/26. As the figure indicates, there is minimal variance between projections and actual collections.

Figure 20: Income from Revenue Sharing (in 100 million, NPR)
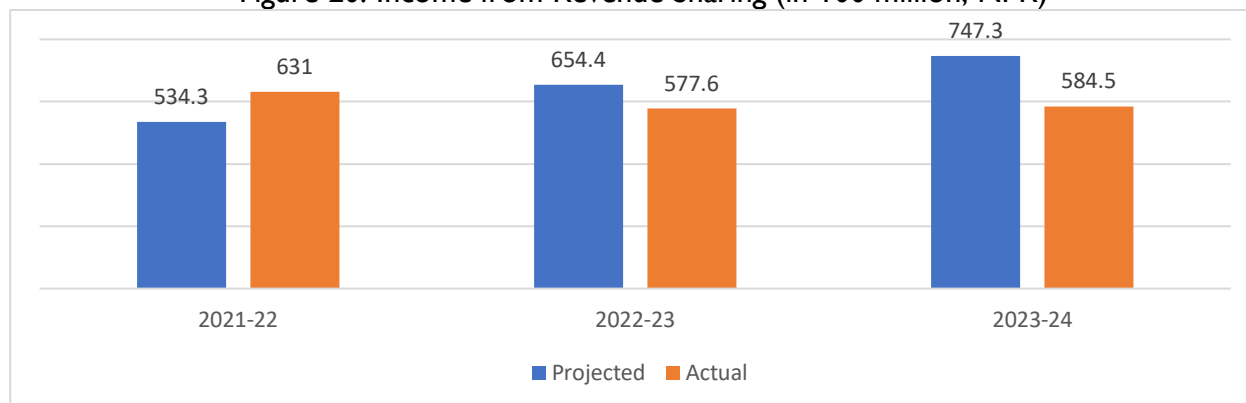
Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.4 Total Revenue from Internal Sources

Internal revenue for provinces includes three main components: revenue collected under provincial taxation authority (local revenue categories), royalties transferred by the federal government, and revenue from shared distribution (VAT and excise duties). A consolidated overview is presented in Table 23. In FY 2023/24, total provincial internal revenue amounted to NPR 9.516 billion, achieving 74.42% of the projected estimate. Of this total, local revenue contributed 36.94%, royalties 1.65%, and shared distribution 61.42%. The high proportion of shared distribution indicates the province's reliance on federal transfers.

Table 21: Income from Internal Revenue (in 100 million, NPR)

Tax Headings	Projected					Actual			Per Capita Internal Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Internal Revenue	490.8	560.4	515.4	587.0	654.5	378.7	362.7	351.5	1205
Royalty	14.7	15.6	16.0	19.8	17.9	16.8	7.0	15.7	54
Shared Revenue	534.3	654.4	747.3	789.9	794.0	631.0	577.6	584.5	2004
Total	**1039.8**	**1230.3**	**1278.7**	**1396.7**	**1466.3**	**1026.6**	**947.2**	**951.6**	3263
Avg.	148.5	175.8	182.7	199.5	209.5	146.7	135.3	135.9	
Note: Per Capita Revenue is of 2023/24									

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

Figure 21 illustrates the estimated versus actual internal revenue for FY 2021/22 to 2025/26. The data shows minimal differences between projections and actual collections.

Figure 21: Income from Internal Revenue (in 100 million, NPR)
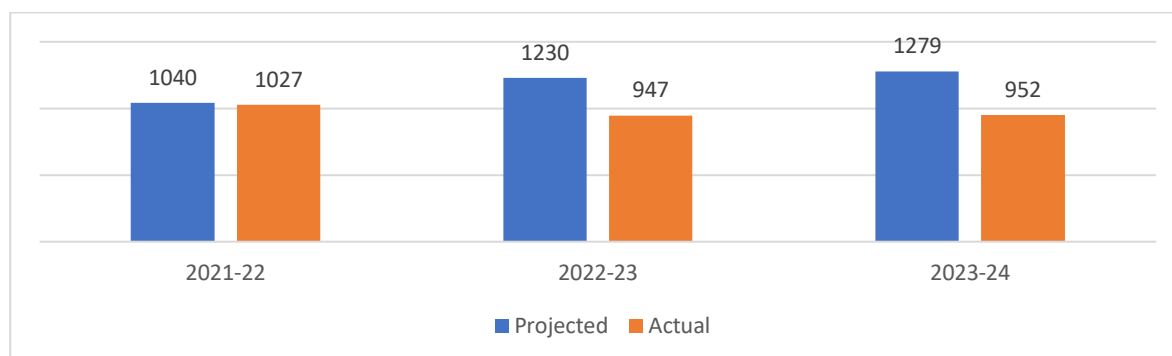
Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.5 Grant-Related Details

3.5.1 Fiscal Equalization Grant (Revenue Code 13311)

Details of the equalization grant are provided in Table 24. In FY 2023/24, provinces received NPR 44.46 billion under this grant, achieving 75.29% of the projected estimate. The equalization grant is a constitutional right of provinces and, by principle, cannot be reduced. However, despite being allocated in the budget, reductions have been applied since FY 2021/22, which is a violation of this principle.

Provinces usually plan their budgets including expected equalization grants from the federal government. An analysis of past estimated and actual revenue shows that the grants are often delayed or not received as initially projected. The federal government sometimes sends the final installment in a reduced amount, affecting budgeted programs. Provinces with low internal revenue, which heavily depend on equalization grants, face difficulties in meeting capital expenditure targets.

Table 22: Details of Equalization Grant (in 100 million, NPR)

Province	Projected					Actual			Per Capita Grants (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	85.7	90.1	87.8	89.4	89.8	85.7	78.8	65.1	1312
Madhesh	73.9	68.4	78.0	78.0	77.2	73.9	68.4	64.7	1058
Bagmati	78.6	84.0	80.1	82.4	82.9	78.6	73.5	59.4	971
Gandaki	74.2	79.3	76.2	76.4	77.4	74.2	69.4	56.5	2290
Lumbini	80.3	85.4	81.5	82.9	84.4	80.3	74.7	60.4	1179
Karnali	101.4	107.3	101.6	103.7	105.6	101.4	93.9	75.3	4461
Sudurpashchim	85.4	90.1	85.2	87.2	89.3	85.4	78.8	63.1	2343
Total	**579.5**	**604.6**	**590.5**	**600.0**	**606.6**	**579.5**	**537.5**	**444.6**	**1524**
Avg.	82.79	86.36	84.36	85.71	86.66	82.79	76.79	63.51	

Province	Projected					Actual			Per Capita
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	Grants (NPR)
Note: Per Capita Grant is of 2023/24									

Source: Analysed from Annex 23

Figure 22 shows the estimated versus actual equalization grant from FY 2018/19 to 2025/26, indicating that from FY 2021/22 onward, the distribution of the grant did not follow the projected allocation.

Figure 22: Details of Equalization Grant (in 100 million, NPR)
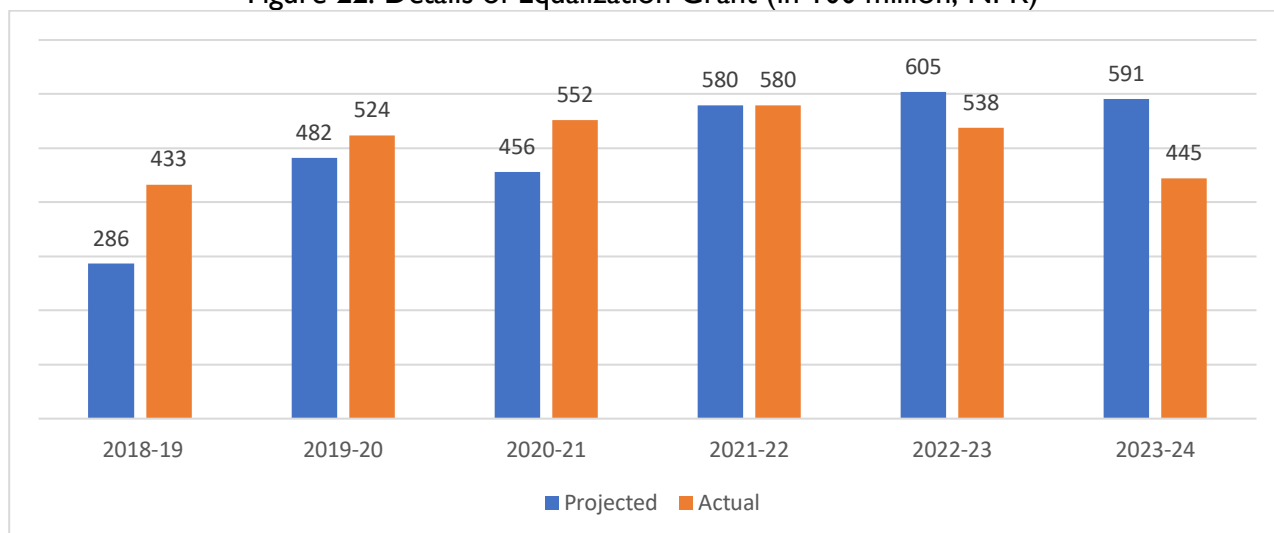
Source: Analysed from Annex 23

3.5.2 Conditional Grants (Revenue Code 13312)

Conditional grant details are in Table 25. In FY 2023/24, the distribution matched the projected allocation. Conditional grants are provided by the federal government with specific conditions, which can affect provincial autonomy. Delays in fund release, complex approval procedures, and cumbersome reporting often prevent timely completion of projects, resulting in frozen budgets or lower-quality construction during the rainy season. Table 25 provides provincial-level estimated and actual revenues for FY 2021/22 to 2025/26. A full breakdown of all grants, including equalization and conditional grants, is in Annex 23.

Table 23: Conditional Grant Amount (in 100 million, NPRs)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	82.3	87	58.4	41.6	45.7	81.4	65.1	55.3	1853
Madhesh	23	22.7	20.1	20.1	42.6	30.1	70.4	24.6	2524
Bagmati	57.3	93.3	57.7	39.9	48.9	66.8	82.1	57.5	986
Gandaki	50.3	69.2	49.4	36	33.6	50.3	49.6	28.6	549
Lumbini	25.4	26.9	24.3	41.9	27	22.2	0	38.9	527
Karnali	19.5	19.3	15.9	15.6	44.5	14.8	13.4	26.5	727
Sudurpashchim	19.6	18.4	16.8	16.4	18.3	16.3	14.4	10.5	679
Total	**277.4**	**336.9**	**242.7**	**211.5**	**260.6**	**282**	**295**	**242**	**893**
Avg.	39.6	48.1	34.7	30.2	37.2	40.3	42.1	34.6	

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Note: Per Capita Grant is of 2023/24									

Figure 23 shows estimated versus actual conditional grants, showing minimal variance.

Figure 23: Conditional Grants (in 100 million, NPR)
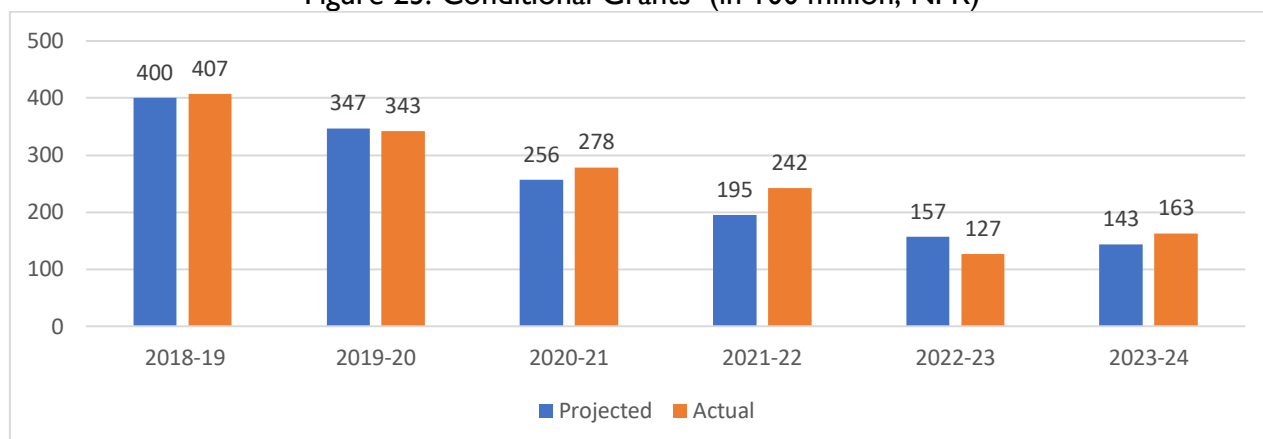
3.5.3 Special Grants

Details of special grants are provided in Table 26. Compared to equalization and conditional grants, these grants are relatively small. In FY 2023/24, provinces received NPR 4.19 billion, slightly below projections. In reality, provinces did not receive these grants according to estimates in any fiscal year. The distribution process is not transparent - some provinces received more while others received less. In principle, special grants are intended to reduce disparities between provinces and help underdeveloped regions catch up, but this is not consistently applied.

Table 24: Status of Estimated and Transfers of Special Grants (in 100 million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	5.9	4.8	7.6	7.8	5.6	5.9	4.8	7.6	226
Madhesh	32.8	36.7	15.5	15.5	3.9	5.9	3.7	15.8	234
Bagmati	5.6	7.9	7.3	9.9	4.1	5.6	7.9	7.3	82
Gandaki	5.5	8.6	7	6.6	5	5.5	4.3	9.4	82
Lumbini	6.3	4.8	5.6	7.4	4	3.3	4.8	0	78
Karnali	6.1	6.7	6	6.7	4.9	3.8	4	0	81
Sudurpashchim	6.1	8	6.2	5.6	5.2	2	1.7	1.8	191
Total	**68.4**	**77.4**	**55.2**	**59.5**	**32.7**	**31.9**	**31.2**	**41.9**	**112**
Avg.	**9.8**	**11.1**	**7.9**	**8.5**	**4.7**	**4.6**	**4.5**	**6**	
Note: Per Capita Grant is of 2023/24									

3.5.4 Supplementary and Other Grants

Details of supplementary grants are in Table 27. In FY 2023/24, provinces received NPR 6.28 billion under this heading, achieving 65.48% of the estimated allocation. Across fiscal years, these grants have not been distributed according to projections. Similar to special grants, the process lacks transparency, and provinces report delays or non-receipt of funds even after project completion.

Table 25: Details of Supplementary and Other Grants (in 100 million, NPR)

Province	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Koshi	17.6	19.2	11.8	10.6	5.9	15.5	13.3	8.1	240
Madhesh	11.3	12.5	3	3	6.6	42.8	8.8	12.7	390
Bagmati	37.7	35.4	43.5	29.9	13.2	19.4	23.9	19.4	266
Gandaki	9.5	9.6	9.1	12.4	6.4	9.5	6.7	5.8	105
Lumbini	22.2	7.4	12.4	8	5.1	12.5	12.1	4.2	100
Karnali	8.3	12.8	8.4	14.1	6.2	2	3.8	6.3	101
Sudurpashchim	12.5	7.7	7.7	14.2	6	5.7	5.6	6.3	224
Total	**119.3**	**104.5**	**95.9**	**92.1**	**49.5**	**107.5**	**74.3**	**62.8**	**170**
Avg.	17	14.9	13.7	13.2	7.1	15.4	10.6	9	
Note: Per Capita Grant is of 2023/24									

Source: Analysed from Annex 23

3.6 Consolidated Grant Details

All types of grants are consolidated in Table 28. For FY 2023/24, provinces received a total of NPR 79.20 billion in grants, achieving 80.41% of the projected estimate. Within the total grants, fiscal equalization grants accounted for 56.19%, conditional grants 30.56%, and special and supplementary grants contributed 5.30% and 7.95%, respectively.

Table 26: Income Received from Grants (in 100 million, NPR)

Grants	Projected					Actual			Per Capita Grants (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Equalization Grants	580.0	605.0	591.0	600.0	607.0	580.0	538.0	445.0	1,526
Conditional	277.0	337.0	243.0	211.0	261.0	282.0	295.0	242.0	830
Special	68.0	77.0	55.0	59.0	33.0	32.0	31.0	42.0	144
Matching and Other	119.0	104.0	96.0	92.0	50.0	107.0	74.0	63.0	216
Total	**1,044.0**	**1,123.0**	**985.0**	**962.0**	**951.0**	**1,001.0**	**938.0**	**792.0**	**2,716**
Avg.	**149.1**	**160.4**	**140.7**	**137.4**	**135.9**	**143.0**	**134.0**	**113.1**	
Note: Per Capita Grant is of 2023/24									

Source: Analysed from Annex 23

Figure 24 illustrates the estimated versus actual grant receipts from FY 2021/22 to 2025/26, showing that the actual distribution did not match the projections.

Figure 24: Total Grants (in 100 million, NPR)
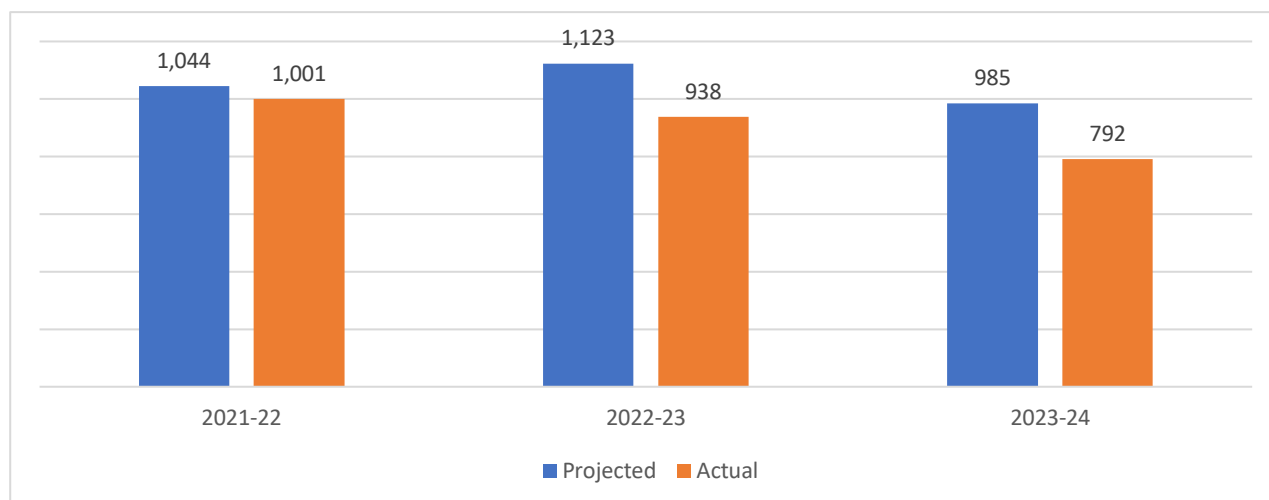
3.7 Total Provincial Revenue

An integrated overview of provincial revenue – including local revenue and financial transfers – is presented in Table 29. In FY 2023/24, the province's total revenue reached NPR 1.74 trillion, achieving 77% of the projected estimate. Per capita revenue was approximately NPR 365. Local revenue contributed 20.16% of the total, while royalties and shared revenue combined with other internal revenue accounted for 54.58%, and grants made up 45.42% of the total.

Although internal revenue has shown a positive growth rate from FY 2021/22 to 2025/26, it remains insufficient compared to potential sources and rapid economic changes. The share of royalty revenue is minimal and highly volatile, representing less than 1% of total revenue, indicating underutilization of natural resources such as water, minerals, and forests. Shared revenue and grants still make up a significant portion of total income, highlighting continued financial dependence on the federal government. Overall, while internal revenue mobilization has gradually improved, its pace remains slow.

Table 27: Details of the Province's Total Revenue (in 100 million, NPR)

Headings	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Internal Revenue of Province	490.8	560.4	515.4	587	654.5	378.7	362.6	351.5	120.5
Royalty	14.7	15.6	16	19.8	17.9	16.8	7	15.7	5.4
Revenue Sharing	534.3	654.4	747.3	789.9	794	631	577.6	584.5	200.4
Total Revenue	**1,039.80**	**1,230.30**	**1,278.70**	**1,396.70**	**1,466.30**	**1,026.60**	**947.2**	**951.6**	**326.3**
Grant	1,044.00	1,123.00	985	962	951	1,001.00	938	792	38.3

Headings	Projected					Actual			Per Capita Revenue (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Grand Total	**2,083.80**	**2,353.30**	**2,263.70**	**2,358.70**	**2,417.30**	**2,027.60**	**1,885.20**	**1,743.60**	**364.60**
Percentage of Internal Revenue	49.90	52.28	56.49	59.21	60.66	50.63	50.24	54.58	
Note: Per Capita Revenue is of 2023/24									

Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

Figure 25 illustrates the estimated versus actual total provincial revenue, showing minimal variance.

Figure 25: Province's Total Revenue (in billion, NPR)
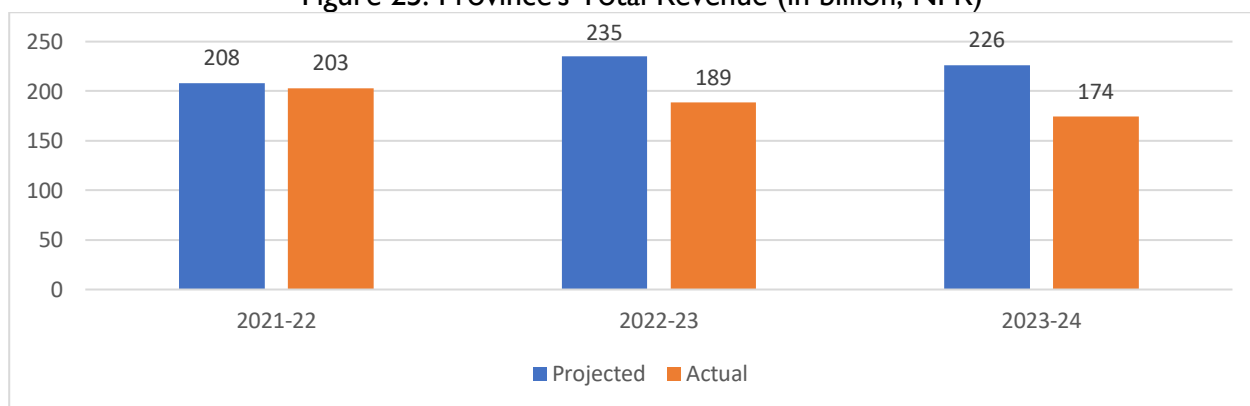
Source: Provincial Budget Speech 2025/26 and analysis based on Office of the Auditor General statistics for fiscal years 2021/22–2023/24

3.8 Provincial Expenditure Details

Table 30 presents the province-wise expenditure from FY 2018/19 to FY 2023/24. Total provincial spending increased from NPR 1.12 trillion in FY 2018/19 to NPR 1.84 trillion in FY 2023/24, with an average expenditure of NPR 1.72 trillion over this period. Among provinces, Bagmati recorded the highest share of expenditure at 20.67%, while Karnali had the lowest at 11.16%.

Table 28: Province Expenditure(in 10 million, NPR)

Province	2018/19	2076/77	2077/78	2078/79	2079/80	2023/24	Avg.
Koshi	2120	2983	2795	2997	3076	2803	2796
Madhesh	1509	1802	2255	2226	2687	2454	2156
Bagmati	2065	2795	3559	3799	4686	4451	3559
Gandaki	1393	2041	2562	2204	2361	2221	2130
Lumbini	1703	2541	3210	3005	3024	2644	2688
Karnali	1002	1688	2204	2428	2227	1987	1923
Sudurpashchim	1416	1761	2297	2088	2406	1851	1970

| Total | 11209 | 15611 | 18883 | 18748 | 20468 | 18411 | 17222 |

Source: Economic Survey 2024/25, Ministry of Finance, Annex 13.6

Figure 29 illustrates the composition of current versus capital expenditure. In FY 2018/19, current expenditure accounted for 45.6% and capital expenditure for 54.4% of total spending. By FY 2023/24, capital expenditure rose to 60.9%, reflecting a positive trend as a higher share of capital spending strengthens developmental outcomes. Province-wise details of current and capital expenditure are provided in Annex 24.

According to the Economic Survey 2024/25, Table 2(j), the federal government's total expenditure in FY 2023/24 was NPR 13.93 trillion, with only 13.78% allocated to capital expenditure. Compared to the federal level, the proportion of provincial capital expenditure is commendably high.

Figure 26: Details of the Province's Current and Capital Expenditure (in Percentages)
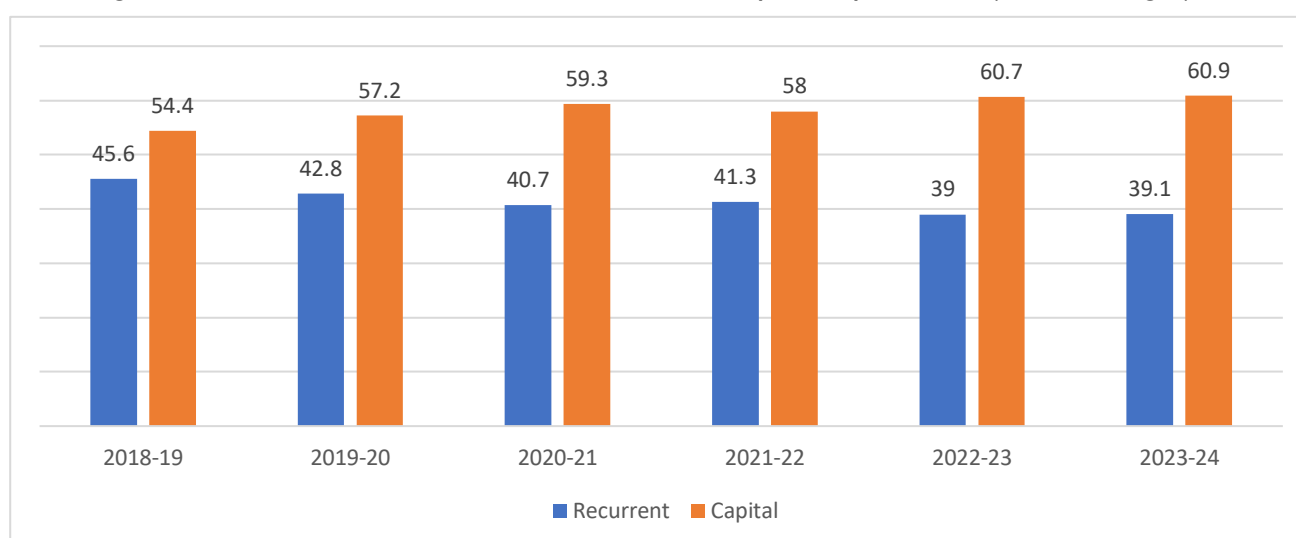
Source: Economic Survey 2024/25, Ministry of Finance, Annex 13.6

3.9 Comparison of Internal Revenue and Current Expenditure

Table 31 compares provincial current expenditure with internal revenue. For FY 2023/24, the province's total current expenditure was NPR 72 billion, while total revenue stood at NPR 95 billion, leaving a surplus of NPR 23.13 billion. The table also accounts for financial transfers to local governments under administrative expenses. According to the Economic Survey 2024/25, the province transferred NPR 21 billion to local levels as grant-based financial support.

When these transfers are considered, the province's fiscal position appears stronger. The High-Level Economic Reform Recommendation Commission (2024) even suggested reviewing transfers from provinces to local bodies to optimize fiscal efficiency. Overall, provincial revenue (excluding grants) is sufficient to cover current expenditures, reflecting a positive financial standing. Except for Karnali, other provinces show robust fiscal health.

Table 29: Difference Between Revenue and Current Expenditure (in 10 million, NPR)

Province	2079/80	2023/24	2079/80	2023/24	2079/80	2023/24
	Revenue		Current Expenditure		Difference=Revenue-current Expenditure	
Koshi	1274	1321	1265	1168	9.5	153.4
Madhesh	1403	1420	1067	926	336.0	494.7
Bagmati	2729	2674	1798	1597	930.8	1077
Gandaki	1022	1069	835	758	186.7	311.6
Lumbini	1383	1382	1251	1042	132.2	340.4
Karnali	745	804	949	918	-204.0	-113.2
Sudurpashchim	916	844	825	795	91.1	49.4
Total	**9472**	**9516**	**7990**	**7203**	**1482**	**2313**

Source: Compiled from the tables mentioned in the annex of the Revenue and Expenditure Report

Figure 27 illustrates the FY 2023/24 comparison of revenue and current expenditure, confirming that provinces other than Karnali maintain a strong fiscal position.

Figure 27: Difference Between Revenue and Current Expenditure FY 2023/24 (in 10 million, NPR)
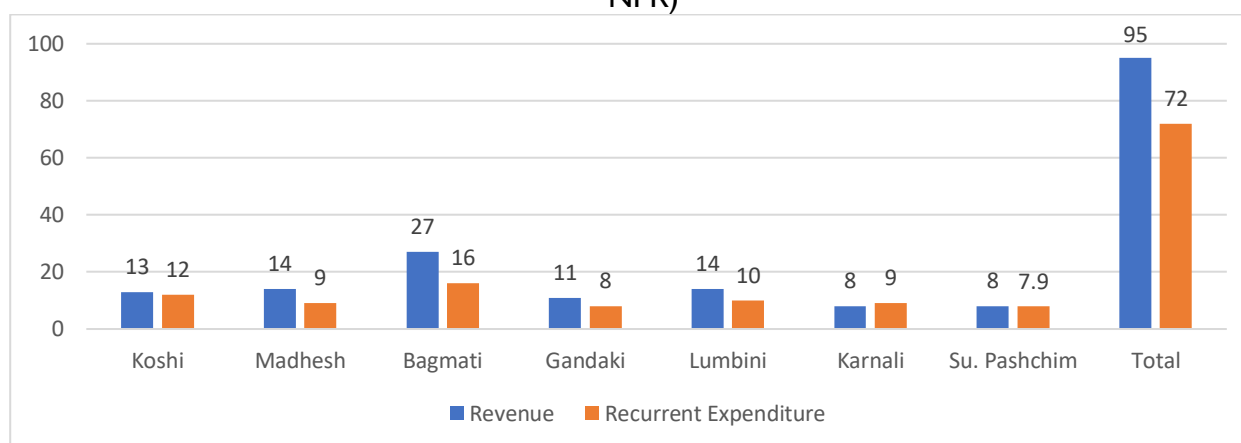
Source: Compiled from the tables mentioned in the annex of the Revenue and Expenditure Report

Chapter 4: Conclusions and Recommendations

4.1 Conclusions

This study primarily focuses on trend analysis of provincial local revenue. While the analysis section touched upon other aspects of provincial income, the conclusions and recommendations remain centered on the core topic, with minor references to other areas.

Examining revenue by category reveals significant gaps between estimated and actual collections across most headings. Madhesh, Karnali, and Sudurpashchim provinces show particularly large disparities in agricultural income tax, tourism and trekking fees, entertainment tax, and advertisement tax. Persistently low—or in some provinces, zero—collections in areas like agricultural tax, entertainment tax, and advertisement tax suggest weak legal enforcement and lack of focus on effective revenue administration. The detailed findings by revenue category are summarized below.

4.1.1 Provincial Own Revenue (Excluding Local Government Share)

a) Agricultural Income Tax

- There is ambiguity among provinces regarding agricultural income tax, with both policy and legal issues. Constitutionally, personal and institutional income taxes fall under the federal government, while business taxes are a local responsibility.
- Provinces perceive any income linked to business within agriculture as their jurisdiction, whereas the federal government claims the same for personal or institutional income. This overlapping authority creates confusion for provincial administration.
- In FY 2023/24, provinces collected only NPR 215,000 from this tax. Effective implementation would require clear policy, legal clarity, manpower, and technology. Currently, no province demonstrates serious focus, as laws specify rates but not collection mechanisms.
- Legal and policy clarity is the first step. Retaining the tax in its current form without clarity serves little purpose. Madhesh, being fertile agricultural land, has yet to estimate or collect revenue from this sector. Provinces need consensus on tax jurisdiction.

b) Tax on Sale of Agricultural Products

- Direct sales revenue from agricultural products shows comparatively better collection in Bagmati, Lumbini, and Madhesh provinces, while Gandaki, Karnali, and Sudurpashchim provinces report low figures.
- Weak provincial capacity in resource management and poor local market systems prevent this tax from becoming a reliable revenue source.
- Bagmati's higher collection indicates that effective market management is a key factor for this revenue stream.
- Revenue collected through agricultural services is also recorded under agricultural product sales tax.

c) Tourism and Trekking Fees

- Gandaki leads in collection but still falls short of estimates.
- Lack of promotion, unclear policies, and structural weaknesses reduce potential collection from regions like Kanchenjunga and Ilam in Koshi, Rara and Shey-Phoksundo in Karnali, and Khaptad and Badimalika in Sudurpashchim.
- Despite significant potential, weak policy, institutional structure, and capacity prevent full utilization. Long-term strategies are needed.
- Coordination is lacking because tourism fees fall under all three government levels. Clear jurisdiction is necessary.

d) Radio, FM, and Television License Fees

- Bagmati shows relatively good collection due to media density, IT investment, and digital systems, though revenue is declining annually.
- Madhesh, Gandaki, and Sudurpashchim provinces have yet to collect revenue; Lumbini has made efforts but collection remains low. Koshi and Karnali show some activity but large gaps exist between estimates and actual revenue.
- These fees have long-term revenue potential but require provincial initiative, federal coordination, policy clarity, investment in technology, and online fee systems.
- Registration, licensing, and renewal processes must be fully digitized.

e) Business Registration Fees

- With increased capital and socio-economic activities, Bagmati collects more than other provinces, yet actual collections fall short of estimates.
- Sudurpashchim shows weak effort, with no formal estimates yet some revenue collected in FY 2023/24.
- Karnali, Gandaki, and Madhesh show large discrepancies between estimated and actual collections.
- Systematic collection, classification of businesses, and setting rates by law could significantly enhance revenue. However, unclear registration authority may cause double taxation, making clear jurisdiction essential.

f) Fees, Fines, and Penalties

- While potentially a strong internal revenue source, implementation is weak with large gaps between estimated and actual collections. Koshi, Bagmati, Gandaki, and Lumbini show higher collections; Karnali and Sudurpashchim remain low.
- Ineffective enforcement of traffic fines, administrative fees, and seizure mechanisms, along with leniency practices, reduce effectiveness.
- Strengthening systems, uniform rates, digital collection platforms, legal clarity, citizen awareness, and improved service delivery can enhance transparency and utility of this revenue category, contributing further to internal revenue strengthening.

4.1.2 Provincial Own Revenue (Shared with Local Governments)

a) Vehicle Tax

- Vehicle tax is a stable, reliable, and low-risk internal revenue source for provincial governments. It contributes about 34% of provincial local tax revenue, playing a key role in enhancing fiscal self-reliance.
- Provinces handle all aspects of this tax—from rate setting to administration. Available data show Bagmati province collects the most, with Gandaki, Lumbini, and Koshi also performing well. However, most provinces collect only about 82% of estimated revenue, and many vehicles remain outside the tax net.
- Coordination issues arise because provinces lack their own police forces and must work with federal traffic police. Low renewal rates for large vehicles and construction machinery also reduce revenue collection.

b) House and Land Registration Fees

- Following vehicle tax, house and land registration fees are another major local revenue source, contributing about 31% to provincial revenue. Bagmati collects the highest due to urbanization, high transaction density, and high-value property deals.
- In FY 2023/24, only NPR 10.97 billion of the estimated NPR 14.43 billion was collected, around 76% of the projection.
- Key reasons for low collection include:
    - Minimum property values set by land offices below market value,
    - Inaccurate valuation methods,
    - Failure to account for infrastructure, road quality, and accessibility in valuations,
    - Structural weaknesses and low transaction volumes in remote provinces.

c) Entertainment and Advertisement Taxes

- *Entertainment Tax:* This is a potential revenue source, but collections are extremely low—just NPR 2 million in FY 2023/24. Gandaki and Bagmati show slightly higher collections, while Madhesh and Karnali report zero collection. Despite high use of entertainment services in urban and capital regions like Kathmandu Valley, revenue collection is inadequate. Lack of coordination between provincial and local governments hampers effective collection and distribution.
- *Advertisement Tax:* Provinces collected around NPR 3 million in FY 2023/24, matching estimates. Bagmati and Koshi performed comparatively better, but Madhesh, Gandaki, Sudurpashchim, and Karnali lag behind. Zero collection in Karnali highlights weak tax administration and collection mechanisms. Main challenges include lack of effective collection systems, realistic forecasting, and clear operational procedures with local governments.

d) Sale of Dahattar Bahattar

- Revenue from this alcohol sales is an important internal source for provinces, but collections are uneven. In FY 2023/24, provinces collected NPR 141 million, only 62% of the estimated revenue. Bagmati collected the most; Sudurpashchim the least.
- The large gap between estimated and actual collections reflects weaknesses in collection processes. Key reasons include local governments failing to remit their legally mandated shares, irregularities and collusion in contract awarding, low bid prices, poor control of illicit sales, and lack of transparency.

4.1.3 Revenue Sharing (VAT and Excise)

- By law, 15% of revenue collected from excise and value-added tax is shared with the provinces. Between FY 2078/79 and 2025/83, provinces have received substantial revenue under this heading, with FY 2023/24 alone yielding NPR 5.845 billion.
- In the current system, provinces have a limited direct role because collection is managed by the central government and distribution follows a predetermined formula. However, provinces can play a significant role in increasing revenue and ensuring transparency through leak prevention, tax education, consumer awareness, and monitoring of internal markets.

4.1.4 Royalties from Revenue Sharing

- Over the past five years, Madhesh province has received the highest forest royalties. Other provinces have underperformed compared to projections. Despite inequalities in forest royalty collection, overall, provinces have collected more than their expected revenue.
- For electricity royalties, Gandaki and Bagmati provinces collected the most, primarily due to the concentration of large hydropower projects in these provinces. Under the current system, only provinces with such projects receive royalties, which needs reform.
- In FY 2023/24, provinces collected a total of NPR 12.97 million in mining royalties, with Lumbini province receiving the most due to the density of stone, limestone, and cement industries. Clear differences exist among provinces in identifying, regulating, and utilizing mining resources.
- In the same year, provinces collected NPR 21.54 million in mountaineering royalties, with Koshi province accounting for more than 80% (NPR 17.46 million).

4.1.5 Grants

- **Fiscal Equalization Grant:** This constitutionally guaranteed grant has occasionally been reduced by the federal government. In FY 2023/24, only 75.29% of the authorized amount was distributed. Lack of full allocation adversely affected provincial plan implementation.
- **Conditional Grants:** Even when released on time, complex processes related to fund disbursement, plan approval, and reporting have delayed project completion. Conditional grants have hindered the development of long-term provincial plans.

- **Special and Complimentary Grants:** These are neither transparent nor fully realized, often received in amounts below projections. Unequal distribution among provinces weakens the intended objectives of these grants.

5.1.6 Total Provincial Revenue

- Analyzing overall revenue, in FY 2023/24, provinces achieved only 77% of projected total revenue. While the share of internal revenue is increasing, the growth rate is slow, and utilization of potential internal sources is limited. Royalties contribute less than 1% of total revenue, signaling underutilization of natural resources. Although royalties are collected by the federal government, provincial attention to resource management and conservation is essential.
- Financial transfers make up a significant portion of total revenue. Provinces need to gradually reduce dependency on federal grants while ensuring effective use of their internal sources.
- Achieving self-reliance in provincial revenue is challenging. Effective deployment of internal resources, improved tax administration, curbing tax leakage, and sustainable utilization of diverse sources are essential for financial independence. In the ongoing debates on constitutional amendments, it is essential for provinces to take initiative in expanding their internal revenue powers. A detailed breakdown of provincial revenue, both projected and actual, is presented in Table 32.

Table 30: Details of the Province's Total Revenue (in billion, NPR)

Headings	Projected					Actual			Per Capita Income (NPR)
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-22	2022-23	2023-24	
Internal Revenue of Province	49.1	56.0	51.5	58.7	65.5	37.9	36.3	35.2	120.5
Royalty	1.5	1.6	1.6	2.0	1.8	1.7	0.7	1.6	5.4
Revenue Sharing	53.4	65.4	74.7	79.0	79.4	63.1	57.8	58.5	200.4
Total Revenue	104.0	123.0	127.9	139.7	146.6	102.7	94.7	95.2	326.3
Grants	104.4	112.3	98.5	96.2	95.1	100.1	93.8	79.2	38.3
Grand Total	208.4	235.3	226.4	235.9	241.7	202.8	188.5	174.4	364.60
Internal RevenuePercent	49.9	52.28	56.49	59.21	60.66	50.63	50.24	54.58	
Note: Per Capita Revenue is of 2023/24									

Source: Provincial Budget Speech 2025/83 and analysis based on Office of the Auditor General statistics for fiscal years 2078/79–2023/24

4.2 Recommendations

This study highlights significant disparities in the provinces' revenue management capacity, unrealistic revenue projections, inadequate data systems, and weaknesses in policy formulation and

implementation. These challenges have a direct negative impact on provincial financial planning, budget management, and development initiatives. To address these issues, the following measures are recommended.

4.2.1 Key Recommendations

1. Improve Budgeting and Revenue Forecasting

- Revenue projections should be realistic and grounded in historical collection data, potential economic growth rates, and region-specific factors.
- Use tax revenue modeling and forecasting tools to make projections more evidence-based and scientifically robust.

2. Digital Transformation

- Learning from the experience of Bagmati Province, all provinces should fully transform their revenue collection and management systems into digital platforms. The structural and technical capacity of revenue divisions should be strengthened, and IT systems and monitoring mechanisms made more effective. This will help enhance transparency, create a taxpayer-friendly environment, and control revenue leakage.

3. Human Resource and Institutional Capacity Development

- Employees working in tax administration need to be made more competent through continuous training, subject-matter expertise, and motivation systems.
- To strengthen tax administration, staff positions should be filled and institutional capacity enhanced in line with the organizational management report.
- Monitoring and supervision mechanisms should be strengthened to control revenue leakage.
- Reforms should be undertaken to promote a voluntary tax system and create a transparent, taxpayer-friendly environment.

4. Expand Tax Coverage

- Bring under-taxed sectors like agriculture, tourism, services, and digital businesses into the tax net through clear policy guidance and implementation strategies.
- Identify potential tax bases and revise the tax structure accordingly.

5. Strengthen Data Systems

- Invest in infrastructure to develop updated and reliable data management systems.
- Centralize and digitize data to reduce policy errors caused by weak information systems.

6. Intergovernmental Coordination and Clarity

- Establish clear legal frameworks and coordination mechanisms among federal, provincial, and local governments regarding revenue rights, revenue sharing, and natural resource management.
- Activate coordinating institutions such as the Intergovernmental Fiscal Council and Provincial Coordination Councils.

7. Legal Reforms

- Amend relevant acts—including the Intergovernmental Fiscal Management Act, 2074; Local Government Operation Act, 2074; and the Federal-Provincial-Local Coordination and Relations Act, 2077—to resolve disputes in provincial revenue collection and sharing.
- Expedite the passage of the Construction Material Management Bill, 2080, currently under parliamentary consideration.

8. Policy Reforms

- Replace contractor-based collection of sources like advertising tax with dedicated government collection units.
- Clarify agricultural revenue provisions in the Economic Act or Revenue Act, and ensure provincial consensus coordinated with the federal government.
- Effectively implement items in the joint rights list, coordinating tax collection between provinces and local levels under an integrated tax administration system.
- Provinces should prepare and implement actionable revenue improvement plans.

9. Institutional Reforms

- Strengthen tax administration by filling sanctioned posts and reinforcing institutional structures as per organizational management reports.
- Strengthen monitoring and supervision systems to control revenue leakages.
- Promote a voluntary, transparent, and taxpayer-friendly tax system.

This set of recommendations aims to create a more self-reliant, efficient, and transparent provincial revenue system capable of supporting sustainable development and reducing fiscal dependency on the federal government.

4.2.2 Supplementary Recommendations (Thematic Suggestions)

A. Thematic Areas of Internal Revenue

1) Tax on Agricultural Income

- Agricultural income tax should be legally defined with clear scope, exemptions, and classifications.
- Policies must exempt small farmers while bringing commercial farmers under the tax net.

- Public awareness campaigns on agricultural taxation should be promoted, aligning tax rates with the Income Tax Act, 2058.
- Strengthen tax administration and data systems for effective management.
- Ensure that grant policies and tax collection methods are consistent and mutually reinforcing.

2) Revenue from Sale of Agricultural Produce

- Provinces should facilitate market access and strengthen value chain management.
- Implement digital tracking, e-invoicing, and clear tax determination mechanisms.
- Include this as agricultural service tax under the Economic Act.
- Engage local governments in marketing support.

3) Tourism and Trekking Fees

- Ensure clarity on tourism route development, promotion, and fee collection rights.
- Collaborate with national parks for revenue sharing.
- Expand an integrated digital system for trekking fee collection.

4) Forest Product Fees

- Establish clear criteria for service charges from community forest revenue.
- Introduce online price lists to enhance transparency in valuation.
- Facilitate management of timber damaged by natural disasters.

5) Radio, FM, and Television Fees

- Move media registration, licensing, and renewal processes online.
- Regularly publish collected fee reports.

6) Fines, Penalties, and Seizures

- Develop a robust penalty system for tax evasion and illegal activities.
- Reduce gaps between estimated and actual revenue.
- Strengthen mechanisms for traffic fines, administrative fees, and seizures, eliminating exemption practices.
- Standardize fee rates and enhance transparency through digital systems.
- Resolve legal ambiguities and improve public awareness and service quality to support revenue collection.

7) Vehicle Tax

- Identify vehicles outside the tax net and run targeted renewal and registration campaigns.
- Establish technical and institutional coordination with federal traffic police to strengthen collection.

- Require mandatory renewal certificates for heavy vehicles and machinery used in public contracts.
- Digitize the tax renewal and payment system, providing online accessibility for taxpayers, enhancing transparency and efficiency.
- Conduct public awareness campaigns about tax obligations, renewal requirements, and links to public services.
- Invest in staff capacity building, technological orientation, and necessary infrastructure.
- Consider establishing a provincial vehicle tax authority or a special task force for long-term administration and enforcement.

8) House and Land Registration Fees

- Regularly review minimum property values based on market rates to collect fees fairly.
- Develop scientific valuation methods incorporating infrastructure availability and quality (roads, electricity, water, drainage).
- Apply differentiated valuation methods for urban, peri-urban, and rural areas to ensure transparency and equity.
- Introduce digital and GIS-based valuation systems in land and property offices.
- Implement digital registration systems in weaker provinces like Karnali and Sudurpashchim.
- Train local governments in valuation and data collection.
- Monitor monthly to reduce gaps between estimated and actual revenue.
- Establish independent valuation committees for regular updates.
- Enforce strict actions against offices conducting incomplete or inaccurate assessments.

9) Entertainment Tax

- Establish clear procedures, revenue-sharing standards, and coordination mechanisms between provinces and local governments for collection and distribution.
- Clarify the legal framework for cinemas, live shows, and digital programs.
- Identify the scope of entertainment businesses and develop trained personnel and technology for collection.
- Implement automated digital ticket-based tax collection in high-potential areas like Kathmandu, Pokhara, Bharatpur, and Biratnagar.
- Ensure clear responsibilities between province and local levels to avoid encroaching on local autonomy.

10) Advertisement Tax

- Develop practical forecasting methods, clearly defining division of duties and revenue-sharing mechanisms with local governments.
- Expand taxation beyond hoardings to digital media (radio, TV, newspapers, YouTube, Facebook, etc.) with appropriate legal frameworks.
- Establish clear guidelines for collection from professional communication platforms.
- Strengthen human resources, training, technology, and incentives, especially in provinces like Madhesh, Gandaki, Karnali, and Sudurpashchim.

- Ensure transparent assessment systems to prevent revenue loss when local governments outsource collections.
- Set up dedicated units using digital systems to strengthen forecasting, assessment, and collection.

11) Sale of Construction Materials (Dahattar-Bahattar)

- Monitor the legally mandated 40% revenue share to provinces through dedicated oversight mechanisms.
- Implement digital bidding systems to prevent collusion, underpricing, and non-participation in tenders.
- Assign direct responsibility to local administration and police to curb illegal extraction and improve supervision.
- Clarify roles and responsibilities between provinces and local governments to maximize potential revenue from rivers, streams, and construction sites.
- Conduct special audits in areas with large mineral resources in coordination with provincial audit committees or the Auditor General.
- Introduce digital tracking (GPS or QR codes) for stone, gravel, and sand transport to ensure transparency and reliability.

B. Revenue Sharing (VAT and Excise)

- Provinces should strengthen their roles through monitoring, leak prevention, and tax education.
- Prioritize provincial advice in intergovernmental coordination mechanisms.
- Provide preferential distribution systems for less economically active provinces like Karnali and Sudurpashchim.
- Enhance provincial-level data collection, analysis, and record-keeping to maintain transparency between estimated and actual revenue.

C. Royalties from Natural Resources

- Focus on sustainable use, management, and conservation of forest resources to ensure long-term revenue growth. Madhesh Province, with limited non-forest royalty potential, should pay special attention to forest conservation.
- Improve forecasting systems due to large gaps between estimated and actual revenue.
- Provide technical and policy support to expand forest resource utilization capacity.
- Revise policies to distribute hydropower royalties not just to the project province but also to areas affected by electricity flow and substations.
- Strengthen provincial roles in the Department of Electricity's royalty collection and distribution to improve decision-making credibility.
- Federal government should ensure balance among provinces when developing hydropower projects.
- Provinces should prioritize scientific identification, regulation, and commercial utilization of mineral resources.

- Madhesh needs policies, plans, and structures for potential mineral studies.
- Karnali should promote infrastructure and investments for petroleum and mining expansion in collaboration with the federal government.
- Distribute royalties from Himalayan tourism to benefit other affected provinces (access routes, base camps, service areas).
- Policies for mountain tourism should be sustainable, environmentally friendly, and inclusive to support long-term revenue growth.

D. Grants

- Increase fiscal equalization grants proportionate to budgets, in line with constitutional rights, ensuring allocation according to authority.
- Define clear criteria for special and supplementary grants to ensure fair and equitable distribution.
- Streamline project approval, disbursement, and reporting processes to enable timely implementation, including bulk disbursement of conditional grants.
- Federal government should consider provincial long-term development strategies when providing grants, allowing provinces to plan according to needs rather than grant availability.
- Federal support should also focus on policies, technical assistance, and structural support to enhance provincial internal revenue, reducing dependency on grants.

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Annexes

Annex 1: Revenue Rights of the Federal, Provincial, and Local Levels

Revenue Titles	Federal	Provincial	Local
Tax Revenue			
Customs Duty	√		
Excise Duty	√		
Value Added Tax (VAT)	√		
Institutional and Individual Income Tax	√		
Remuneration (Salary) Tax	√		
Agricultural Income Tax		√	
Advertisement Tax		√	√
Entertainment Tax		√	√
Land and House Registration Fee		√	√
Vehicle Tax		√	√
Property Tax			√
Land and House Rent Tax			√
Business Tax			√
Land Tax (Malpot)			√
Non-Tax Revenue			
Tourism Fee			
Service Charges, Fees, Penalties, and Fines	√	√	√
Passport and Visa Fee	√		
Gambling, Lottery, and Casino Fee	√		
Tourism Royalty	√		
Tourism Service Fee		√	√
(Dahattar Bahattar Fee)		√	√
Forest Product Sales Fee		√	

Source: Constitution of Nepal 2015

Annex 2: Checklist Used for Information Collection from Provincial and Local Levels

1) Details of the Province/Local Level

Name of the Province/Local Level	
Email	
Name/Position of the Information Provider	
Phone Number of the Information Provider	

2) Status of Revenue Collection from Areas under Exclusive Jurisdiction of the Province

a. Agricultural Income Tax
- Has the agricultural income tax been collected or not?
- How has the tax base been determined?

b. Tourism Fees
- What types of tourist destinations are located in this area?
- Is tourism revenue being collected from those areas or not?
- Income from Forest Areas
- Fees for Private Water Sources
- Trekking Fees
- Business Registration Fees
- Radio/FM Operation Fees
- Television Operation Fees
- Other Fees Related to Water Resources
- Fees Related to Driver's License and Vehicle Registration Book (Blue Book)

3) Status of Revenue Collection from Shared Jurisdiction Between Provincial and Local Levels

a. House and Land Registration Fees
- Status of revenue collection (monthly/quarterly/half-yearly/annual)
- Sharing of other fees and charges (whether credited to the provincial consolidated fund or shared)
- Revenue sharing from additional fees charged for registration across districts or regions

b. Vehicle Tax
- Types of vehicles included under the vehicle tax as per the Finance Act
- Status of revenue collection from small vehicles such as auto-rickshaws, e-rickshaws, and tempos
- Revenue sharing with local governments

c. Entertainment Tax
- What types of headings are included under the entertainment tax?
- How are the rates determined? (Per ticket or annual lump sum)
- Who is responsible for determining the tax rate?
- How and when (monthly/half-yearly/annually) does the province receive the 40% share from revenue collected by local levels?
- What is the current system or process of revenue collection under this tax?

d. Advertisement Tax
- Headings included under advertisement tax

- How are the rates determined?
- How and when (monthly/half-yearly/annually) is the province provided its 40% share of the collected revenue?
- Mention the main challenges faced in advertisement tax collection.

e. Natural Resource Fees
- Who determines the sales fees for river-based materials?
- Has the local government been sharing 40% of the revenue or not?
- What are the major challenges in the collection and sale of natural resources?

Annex 3: Provincial Economic and Social Indicators

Indicator	Nepal	Koshi	Madhesh	Bagmati	Gandaki	Lumbini	Karnali	Sudurpaschim
Administrative and Population Details								
Local Level Count	753	137	136	119	85	109	79	88
Population	29164578	4961412	6114600	6116866	2466427	5122078	1688412	2694783
Population (%)	100	17	21	21	8.5	17.6	5.8	9.2
Area (sq.km)	147516	25905	9661	20300	21504	22288	27984	19874
Area (%)	100	17.6	6.6	13.8	15.3	11.8	21.6	13.3
Social and Economic Spheres								
Economic Growth Rate (%)	46.1	3.34	4.5	5.18	5.51	4.7	4.74	3.32
Provincial Contribution to GDP (%)	100	15.9	13.16	36.52	8.98	14.23	4.19	7.03
Consumer Inflation (%)	3.75	5.58	3.52	2.98	2.77	3.77	3.8	4.41
Per Capita GDP (USD)	14007	9320	26015	16204	12006	10889	11530	
Hydropower Production (MW)	3512	631	35	1588	1002	78	11	167
Number of Schools	35447	6902	4913	6692	3890	5735	3210	4105
Student Enrollment (in thousands)	7011	1087	1629	1368	501	1246	483	696
Financial Spheres								
Number of Bank & Financial Institution Branches	11543	1845	1762	3041	1402	2166	478	849
Population per Branch	2527	2689	3470	2011	1759	2365	3532	3174
Number of Insurance Branches	2992	491	386	840	345	501	159	270
Provincial Expenditure (in Rs. crore)	18411	2803	2454	4451	2221	2644	1987	1851
Provincial Revenue (in Rs. crore)	9361	1310	1410	2550	1065	1368	804	854
Provincial Consolidated Fund Balance (in Rs. crore)	423	1407	1996	119	81	631	435	

Source: Economic Survey 2024

Annex 4: Details of Revenue Sharing Listed in the Concurrent Powers List

Revenue Heads	Exercise of Authority		Revenue Sharing (Percentage)			
	Rate Determination	Collection and Administration	Federation	Province	Local	Total
House and Land Registration Fee	Province	Local	0	40	60	100
Vehicle Tax	Province	Province	0	60	40	100
Entertainment Tax	Province	Local	0	40	60	100
Advertisement Tax	Local	Local	0	40	60	100
Revenue Sharing						
Value Added Tax	Federation	Federation	70	15	15	100
Customs Duty	Federation	Federation	70	15	15	100
Royalty from Natural Resources						
Mountaineering	Federation	Federation	50	25	25	100
Hydropower	Federation	Federation	50	25	25	100
Forest	Federation	Federation	50	25	25	100
Mines and Minerals	Federation	Federation	50	25	25	100
Water and Other Natural Resources	Federation	Federation	50	25	25	100

Source: Analyzed based on the Intergovernmental Fiscal Management Act, 2017

Annex 4.1: Basis and Structure of Value Added Tax and Internal Tax Sharing (FY 2025-26 to 2029/30)

S.N.	Indicator / Sub-indicator	Sub-indicator Weight %	Sub-indicator Weight %
1	Population and Demographic Details		
1.1	Total Population	60	55
1.2	Dependent Population (under 15 years and over 64 years)	30	
1.3	Population with Disabilities	10	
2	Area		18
3	Human Development Index		10
4	Expenditure Requirement		
4.1	Number of Provincial Assembly Members / Number of Wards of Relevant Local Level	100	2
5	Effort in Revenue Collection		3
6	Status of Infrastructure Development		
6.1	Road Density (Access to Roads)	35	10
6.2	Drinking Water Facility (Access to Drinking Water)	15	
6.3	Sanitation (Availability of Toilets)	15	
6.4	Urbanization Status	15	
6.5	Electricity Facility (Access to Electricity)	10	
6.6	Information Technology Facility (Access to IT)	10	
7	Special Condition		
7.1	Area Covered by Chure Conservation Area	70	2
7.2	Area Covered by Intermediate Region	30	`
	Total		100

Source: From the presentation made by the National Natural Resources and Fiscal Commission to the Parliamentary Committee on Federalism Strengthening and National Concern**,** National Assembly, on July 13, 2025

Annex 4.2: Details of Revenue Sharing from Royalties

a) Distribution of Royalties from Mountaineering

S.N.	Basis (Internal Weight %)	Distribution (%)
1	Geographical Location	40%
	a. Local Level with Mountain Area	60%
	b. Local Level Adjacent to Mountain Area	40%
2	Base Camp Location	10%
	a. Local Level with Mountain Area	60%
	b. Local Level Adjacent to Mountain Area	40%
3	Population of Affected Local Levels	25%
	a. Local Level with Mountain Area	60%
	b. Local Level Adjacent to Mountain Area	40%
	Total	100

Source: National Natural Resources and Fiscal Commission First Annual Report 2019

b) Distribution of Royalties from Electricity

S.N.	Basis (Internal Weight %)	Distribution (%)
1	Geographical Location	50%
	a. Main Area (Local Level with Electricity Structures)	50%
	b. Affected Area (Local Level impacted by Project)	30%
	c. Surrounding Area (Upper & Lower Shore Local Levels around Project Site)	20%
2	Area of Affected Local Levels	25%
	a. Main Area	50%
	b. Affected Area	30%
	c. Surrounding Area	20%
3	Population of Affected Local Levels	25%
	a. Main Area	50%
	b. Affected Area	30%
	c. Surrounding Area	20%
	Total	100

Source: National Natural Resources and Fiscal Commission First Annual Report 2019

c) Distribution of Royalties from Forests

S.N.	Basis Indicators	Distribution (%)
1	Location of Forest (Local Level with Forest)	20
2	Forest Area (Area of Forest in Local Level)	40
3	Population of Local Level	20
4	Population Dependent on Forest	10
5	Participation in Forest Conservation and Sustainable Management	10
	Total	100

Source: National Natural Resources and Fiscal Commission First Annual Report 2019

d) Distribution of Royalties from Mines and Minerals

S.N.	Basis (Internal Sub-Indicator Weights %)	Distribution (%)
1	Geographical Location	50%
	a. Local Level with Mining Area	60%
	b. Local Level Granted Mining Permission	40%
2	Area of Affected Region	30%
3	Population of Affected Region	20%
	Total	100

Source: National Natural Resources and Fiscal Commission First Annual Report 2019

e) Distribution of Royalties from Protected Areas

S.N.	Basis Indicators	Distribution (%)
1	Location of Local Level in Intermediate Zone	10
2	Area of Local Level in Intermediate Zone	40
3	Population of Local Level in Intermediate Zone	35
4	Participation in Conservation and Sustainable Management of Protected Area	15
	Total	100

Source: National Natural Resources and Fiscal Commission First Annual Report 2019

Annex 5: Analysis of Provincial Budget Statements

Province	Budget Analysis (FY 2082/83)
Koshi Province	1. Expand the scope of revenue collected by the federal and local levels under a unified tax administration, and ensure coordination and cooperation. To achieve appropriate objectives, make the revenue administration lawful, develop the capacity of personnel involved in revenue collection, and, in coordination with security agencies, local governments, and stakeholders, control revenue leakage. 2. Improve intergovernmental coordination and broaden the revenue base, making it more taxpayer-friendly. 3. Digitize the payment of transportation-related revenues, including driver fitness and other transport fees. 4. Develop an electronic vehicle registration system (e-VRS) to make services such as vehicle registration, renewal, and transfer easier and simpler. 5. Draft a Revenue Bill to further systematize revenue administration. 6. Draft a new Revenue Act to amend and update the Tax and Non-Tax Act, 2075 (2018). 7. Approve and implement a revenue reform action plan to make revenue operations more efficient. 8. Increase revenue by partnering with the private sector, investing in productive sectors such as hydropower, and creating a strong long-term revenue base. 9. Establish national revenue offices and make revenue collection more effective in coordination with local governments.
Madhesh Province	1. It is mentioned that revenue collection targets will be set for all eight Transport Management Offices under Madhesh Province, and offices that collect revenue beyond the target will be rewarded. 2. The province plans to reform the structure and working procedures of the transport sector by establishing citizen-friendly, transparent, and technology-based Transport Management Offices in all districts of Madhesh Province in their own buildings. 3. To reduce tax and non-tax revenue leakage, the structure of the Revenue Administration Section will be strengthened and administrative systems will be enhanced through effective use of technology. 4. A Revenue Reform Suggestion Committee will be formed to identify strategies and measures necessary to increase provincial revenue.
Bagmati Province	1. It is mentioned that a province-level revenue policy will be formulated to address provincial needs while ensuring coordination with the federal revenue policy to manage growing public expenditure. 2. The province will revise and simplify tax-related laws within its jurisdiction to make revenue collection processes easier and more effective. It will also strengthen the administrative capacity of revenue collection bodies to control leakage. 3. The province will review and, if necessary, amend the legal framework related to non-tax revenue to ensure sustainable utilization of natural resources—the main provincial resources—and to enhance public service delivery. Tariffs and rate structures will be made appropriate and practical.

	4. A legal provision will be made to ensure that a fixed portion of the revenue collected by the federal government through VAT and excise duty is deposited into the provincial consolidated fund. The province will implement this provision effectively and adopt land-based investment policies to expand economic activities. 5. To make internal income sustainable and expandable, investment will be made in agriculture, forestry, tourism, and information technology sectors to boost production and productivity, thereby ensuring significant growth in internal revenue. 6. (Repeated) Similar investment and productivity enhancement efforts will be made to sustainably increase internal revenue. 7. The province will prioritize projects that are fully or jointly constructed and handed over to local levels, ensuring that the province receives a fixed share of income generated from those projects. 8. Efforts will be made in coordination with the federal and local governments to resolve legal ambiguities and obstacles seen in revenue collection. 9. Based on the recommendations of the Provincial Revenue Advisory Committee, adjustments will be made in land registration fees, advertisement tax, entertainment tax, vehicle tax, business registration and renewal fees, and service charges to make the revenue system realistic and up to date. 10. The scope of entertainment tax has been expanded to include cultural performances, concerts, theatres/plays, dohori evenings, dance bars, nightclubs, casinos, parks, puppet houses, swimming pools, zip lines, swings, glass bridges, fun jeeps, etc., with revised tax rates. 11. Fees collected from government or private hospitals and alternative health service providers will be deposited in the provincial consolidated fund.
Gandaki Province	1. The province plans to reform the internal revenue system to expand economic activities and prioritize investment promotion, production, and entrepreneurship. 2. The scope of revenue mobilization will be expanded. 3. Inter-agency coordination will be strengthened to make tax collection more effective. 4. The efficiency and professionalism of revenue administration will be enhanced. 5. Fees charged for documents related to land division ("plots joined or separated") from the Land Reform/Land Revenue Office have been adjusted. Service charges for land partition and registration cancellation between landowners and tenants have also been revised. 6. Registration and renewal rates for electric vehicles (EVs) and public electric transport have been determined. 7. To enhance provincial revenue mobilization, a Provincial Revenue Management Office will be established under the Ministry of Finance.
Lumbini Province	Community forests will be empowered to increase community income by collecting forest residues for organic fertilizer production and protecting fallen trees from fire hazards. The provincial government will coordinate with the federal government to ensure Lumbini's fair share of revenue generated from timber and carbon trading.

	Revenue Mobilization Policy and Plan:
	1. The recommendations made by the Revenue Reform Task Force will be implemented in phases to strengthen the internal income base and adjust tax rates in coordination with provincial needs and the federal structure.
	2. The revenue system will be made transparent, accountable, and taxpayer-friendly, encouraging citizens' participation in voluntary tax payment.
	3. To strengthen internal revenue, current tax rates will be reviewed, and new taxable sectors will be identified and expanded.
	4. Taxes, fees, and charges related to vehicles will be updated according to current needs, and fines collected from drivers and vehicles will be deposited into the provincial consolidated fund.
	5. To reduce the consumption of intoxicating substances, environmental service charges will be levied on such goods.
	6. Private or joint vehicles that have not been renewed (whether operational or inactive) must be renewed or deregistered by the end of Poush 2082; a 75% fine waiver will be provided for compliance.
	7. Small, cottage, and household industries registered in FY 2082/83 will receive a 50% discount on registration fees.
	8. The forest sector will be used as a key driver for provincial revenue and prosperity, with policy and legal reforms to regulate the management of construction materials.
	9. Of the annual income of community forest user groups:
	○ Up to NPR 200,000: 1% service charge
	○ Income above NPR 200,000 (from members): 5% service charge
	○ Income from non-members: 25% service charge
	These charges will be deposited into the provincial consolidated fund.
	10. Coordination with the federal government will be made to ensure the fair entitlement of grants, revenue shares, and royalties as per the spirit of federalism.
	Resources will be managed for strategic and infrastructure projects of provincial importance, using mixed financing, green financing, and other alternative financial systems, including debt mobilization.
Karnali Province	**Revenue Policy and Programs:**
	1. A balanced tax policy is proposed—comparable to how bees collect honey without harming flowers—ensuring that the development of productive sectors like tourism, agriculture, and forestry is not adversely affected. This aims to expand the tax base and internal revenue.
	2. To discourage the trend of keeping cultivable land fallow, a symbolic tax will be introduced.
	3. Coordination will be made with local governments to implement the provision that taxes collected under shared tax authority must be distributed between province and local levels.
	4. Local governments that fail to share collected revenue will have a portion of their equalization grants deducted in the next fiscal year to ensure tax obligations are met.
	5. The province will coordinate with the federal government to ensure that fines collected by traffic police for violations contrary to the

	Provincial Transport Management Act, 2081, are deposited into the provincial consolidated fund.
	6. As land registration fees are a major provincial revenue source, the province will initiate legal and administrative coordination with the federal government to ensure autonomous provincial authority in determining minimum property valuation bases.
	7. The province will ensure that a share of tourism fees collected by local or institutional bodies from provincial tourism structures is deposited into the provincial consolidated fund.
	8. In line with the principle of "Karnali's Salt: Karnali's Wealth," the province will levy fees on the extraction, processing, and sale of mineral and non-mineral natural resources and deposit the revenue in the provincial consolidated fund.
	9. When disbursing cash grants to entities or individuals, a nominal service charge will be deducted before payment.
	10. Based on recommendations from the Revenue Feasibility Task Force, a Revenue Reform Plan will be developed, strengthening revenue administration in coordination with the federal and local governments and taxpayers.
	11. Coordinated and regulated environmental fees will be levied on industries producing bricks, concrete blocks, river-based materials, and plastic goods—both to increase revenue and to contribute to environmental sustainability.
	Revenue Exemptions and Concessions:
	1. Government vehicles that are no longer usable will be exempted from all fees and penalties except taxes of the last two years.
	2. A 100% exemption on registration fees will be provided for land purchases for productive industries (excluding textile and liquor), hydropower, floriculture, vegetable farming, livestock, herbal cultivation, small industries, and collective farming.
	3. Persons with disabilities, Dalits, marginalized, minority, or disadvantaged communities will receive a 25% exemption on land registration fees based on local recommendation and financial proof.
	4. Women, citizens above 70 years, and women in vulnerable conditions due to marriage will receive a 25% exemption on land registration fees for land purchased in their name.
Sudurpaschim Province	Make necessary legal arrangements to enhance revenue through the effective use of forest products and ensure equitable benefit-sharing. Additionally, digitize through an online system services such as driver's licenses, vehicle registration, renewal, and revenue payments.

Source: Analysis based on the Policy, Program, and Budget Speech Booklets of All Provinces for Fiscal Year 2025/26

Annex 6: Comparative Analysis of Tax on Agricultural Income

Province	Basis of Tax	Annual Tax Rate (in NPR)	Tax Assessment Process	Implementation Status	Collecting Office
Koshi	Partnership firms and companies engaged in agricultural business	Exemption up to NPR 800,000; 1.5% for NPR 800,000–6 million; 1.75% for NPR 6–10 million; 2% for above NPR 10 million	Self-declaration	Tax collected since FY 2080/81	Collected by Agriculture Knowledge Center
Madhesh	Farmers, farmer groups, firms, or organizations	Exemption up to NPR 1 million; 1% for NPR 1–2 million; 1.5% for NPR 2–5 million; 2% for above NPR 5 million	Self-declaration	Not yet estimated or collected	Collected by Agriculture Knowledge Center
Bagmati	Farmers who self-declare tax	Exemption up to NPR 500,000; 1.5% for NPR 500,000–5 million; 1.75% for NPR 5–10 million; 2% for above NPR 10 million	Self-declaration	Tax collected since FY 2080/81	Collected by Agriculture Development Office
Gandaki	Sale of agricultural produce produced within the province	Exemption up to NPR 1 million; 1% for NPR 1–2 million; 2% for above NPR 2 million	Assessment basis not mentioned	Tax collected since FY 2080/81	Collected by Agriculture Knowledge Center
Lumbini	Commercial farmers, farmer groups, agricultural groups, firms, or organizations	Exemption up to NPR 600,000; 1% for NPR 600,000–1 million; 2% for NPR 1–1.5 million; 3% for above NPR 1.5 million	Assessment basis not mentioned	Currently being collected	Collected by Agriculture Knowledge Center or Integrated Agriculture and Livestock Development Office
Karnali	Income from sale of agricultural produce	Exemption up to NPR 500,000; 1% for NPR 500,000–2.5 million; 1.5% for NPR 2.5–5 million; 1.75% for NPR 5–10 million; 2% for above NPR 10 million	Assessment basis not mentioned	Estimated for FY 2082/83	Provincial Ministry responsible for Agriculture

Source: Economic Acts of all Provinces, Fiscal Year 2025

Annex 7: Comparative Analysis of Tourism and Trekking Fees

Province	Basis of Tax	Tax Rate (in NPR)	Tax Assessment Process	Implementation Status	Collecting Office
Koshi	Lakes, parks, caves, museums, view towers, etc.	Fees ranging from NPR 20 to NPR 500	As determined by the provincial government or local level	Estimated but not collected	Local government
Madhesh	Hotels, tourist accommodations, lodges, restaurants and resorts, pubs, and bars	NPR 5,000 to NPR 40,000	Not specified	Neither estimated nor collected	As determined by the provincial government
Bagmati	Areas specified under the *Provincial Tourism Act, 2078 (2021)*	As specified in the *Provincial Tourism Act, 2078 (2021)*	As per the *Provincial Tourism Act, 2078 (2021)*	Collected since FY 2080/81	Designated body or office
Gandaki	Monuments, museums, zoos, caves, trekking routes, lakes, cable cars, parks, paragliding sites, etc.	Entry fee 5%; Trekking: USD 5 for SAARC countries, USD 10 for other countries	As mentioned in Schedule 6 of the Economic Act	Being collected since previous years	Ministry of Tourism and Industry
Lumbini	Registration and renewal fees, adventure tourism agency activities, etc.	As mentioned in Schedule 5 of the Economic Act	As determined in Schedule 5 of the Economic Act	Not yet estimated or collected	Designated body under the Ministry overseeing tourism
Karnali	Tourist sites, museums	As mentioned in Schedule 6 of the Economic Act	As determined in Schedule 6 of the Economic Act	Collected in FY 2079/80	Concerned Ministry
Sudurpaschim	Trekking routes, lakes, caves, parks, bungee jumping, view towers, museums, rock climbing, rafting, canyoning, zipline, ultralight flights, cable cars, picnic sites, paragliding, etc.	As per prevailing provincial tourism laws	As mentioned in Schedule 5 of the Economic Act	Not yet estimated or collected	Designated body or office as per law

Source: Analysis of the Economic Acts of All Provinces, Fiscal Year 2025

Annex 8: Provisions Related to the Distribution of Natural Resource Royalties

8.1 Arrangement under the Intergovernmental Fiscal Arrangement Act

S.N.	Title of Royalty	Government of Nepal	Directly Affected Province	Directly Affected Local Level
1	Mountaineering	50	25	25
2	Electricity	50	25	25
3	Forest	50	25	25
4	Mines and Minerals	50	25	25
5	Water and Other Natural Resources	50	25	25

Source: Intergovernmental Fiscal Arrangemnt Act 2017

8.2 Recommendation of the National Natural Resources and Fiscal Commission (2024)

S.N.	Source of Royalty	Government of Nepal (%)	Concerned Province (%)	Concerned Local Level (%)	Total (%)
1	Mountaineering	49	24	27	100
2	Electricity				
	For Transmission Line Impact Management (20% of Electricity Royalty)*	0	0	100	100
	For Impact Management other than Transmission Line (80% of Electricity Royalty)*	46	24	30	100
3	Forest				
	(a) National Forest	23	48	29	100
	(b) Protected Area**	48	22	30	100
4	Mines and Minerals	41	27	32	100
5	Water and Other Natural Resources				
	(a) Radio Frequency	55	21	24	100
	(b) Others (for natural resources other than those mentioned above)	50	25	25	100

Source: From the presentation made by the National Natural Resources and Fiscal Commission to the Parliamentary Committee on Federalism Strengthening and National Concern, National Assembly, on July 13, 2025

* The mentioned portion has been considered 100 percent for the purpose of distribution.
** Explanation: For the purpose of royalty distribution under this Act, "Protected Area" refers to national parks, wildlife reserves, hunting reserves, conservation areas, and buffer zones as defined under the *National Parks and Wildlife Conservation Act, 2029 (1973).*

8.3 Basis for Equalization Grant Distribution

S.N.	Indicator / Sub-indicator	Sub-indicator Weight	Indicator Weight
1	Human Development Index		10%
2	Socio-economic Inequality		5%
3	State of Infrastructure Development		10%
	• Road Density (Access to Roads)	60%	
	• Electricity Facility (Access to Electricity)	10%	
	• Information Technology Facility (Access to ICT)	10%	
	• Drinking Water Facility (Access to Water)	10%	
	• Sanitation (Availability of Toilets)	10%	
4	Revenue Status		5%
5	Expenditure Needs and Revenue Raising Capacity		70%
	Total		**100%**

Source: Fiscal Federalism and Local Planning: A Resource Book for Local Governments, 2079 (Revised Edition, 2081), National Association of Rural Municipalities of Nepal.

8.4 Recommendation for Financial Equalization Grant (FY 2025/26–2029/30

S.N.	Indicator / Sub-indicator	Sub-indicator Weight	Indicator Weight
1	Human Development Index		10%
2	Socio-economic Inequality		5%
3	State of Infrastructure Development		10 + 5 = 15%
	3.1 Road Density (Access to Roads)	35%	
	3.2 Drinking Water Facility (Access to Water)	15%	
	3.3 Sanitation (Availability of Toilets)	15%	
	3.4 Urbanization Status	15%	
	3.5 Electricity Facility (Access to Electricity)	10%	
	3.6 Information Technology Facility (Access to ICT)	10%	
4	Expenditure Needs and Revenue Raising Capacity		70%
	Total		**100%**

Source: From the presentation made by the National Natural Resources and Fiscal Commission to the Parliamentary Committee on Federalism Strengthening and National Concern, National Assembly, on July 13, 2025

8.5 Recommendations Related to Conditional Grant Distribution for FY 2025/26

1. When any subject, program, or project under the jurisdiction of the Government of Nepal needs to be implemented by the provincial or local government.
2. When national policies and programs are to be implemented through provincial and local governments.
3. When national standards need to be established or implemented by provincial or local governments.
4. When programs or projects involving international financial assistance are to be implemented by provincial or local governments.
5. Strategic and important projects necessary for balanced development.
6. Policy not to provide such grants for small fragmented projects and programs.
7. Conditional grants may be provided on an interim or short-term basis for a specific period or limit, only for fulfilling specified responsibilities.
8. Grants to be provided in an integrated manner.

9. Conditional grants to be prioritized for governments below the national average.
10. Priority to be given to projects and programs with multi-year contracts and partially completed construction before handover.
11. Conditional grants to be provided in sectors deemed more effective for infrastructure development after Nepal's graduation from LDC to developing country status.

Source: From the presentation made by the National Natural Resources and Fiscal Commission to the Parliamentary Committee on Federalism Strengthening and National Concern, National Assembly, on July 13, 2025

8.6 Recommendation for Vehicle Tax Distribution (FY 2025/26–2029/30)

S.N.	Indicator / Sub-indicator	Sub-indicator Weight (%)	Indicator Weight (%)
1	Population and Demographic Details		55
	1.1 Total Population	60	
	1.2 Dependent Population (Below 15 and Above 64 Years)	30	
	1.3 Population with Disabilities	10	
2	Area		10
3	State of Infrastructure Development		25
	3.1 Road Density (Access to Roads)	75	
	3.2 Drinking Water Facility (Access to Water)	5	
	3.3 Sanitation (Availability of Toilets)	5	
	3.4 Urbanization Status	5	
	3.5 Electricity Facility (Access to Electricity)	5	
	3.6 Information Technology Facility (Access to ICT)	5	
4	Forest Coverage / Environment		10
	Total		**100**

Source: From the presentation made by the National Natural Resources and Fiscal Commission to the Parliamentary Committee on Federalism Strengthening and National Concern, National Assembly, on July 13, 2025

Annex 9: Details of Tax on Agricultural Income (in thousand rupees)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
11114- Tax on Agricultural Income	**500**	**1,600**	**1,500**	**1,600**	**605**	**2,005**	**8,103**	**2,759**	**-**	**409**	**84**	**97**	**80**	**208**
Koshi	-	-	-	-	-	-	1,000	1,000	-	-	-	-	-	132
Madhesh	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bagmati	-	-	-	1,500	5	5	1,000	1,000	-	-	-	-	-	8
Gandaki	-	1,500	1,500	-	500	500	342	200	-	409	-	-	-	24
Lumbini	-	-	-	100	100	1,000	5,261	52	-	-	84	97	80	44
Karnali	-	-	-	-	-	-	-	7	-	-	-	-	-	-
Sudurpashchim	500	100	-	-	-	500	500	500	-	-	-	-	-	-
11136- Tax on Agricultural Income	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**7**
Lumbini	-	-	-	-	-	-	-		-	-	-	-	-	7
Grand Total	**500**	**1,600**	**1,500**	**1,600**	**605**	**2,005**	**8,103**	**2,759**	**-**	**409**	**84**	**97**	**80**	**215**

Source: Provincial Budget Statement 2025/26 and Ministry of Federal Affairs and General Administration (MoFAGA) Fiscal Years 2018/19–2023/24

Annex 10: Details of Taxes on Sale of Agricultural Products (in Thousand NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14211- Revenue from Sale of Agricultural Products	-	5500	48890	64155	71589	74121	101700	91085	27562	37395	48397	53960	59187	79765
Koshi	-	-	1018	5500	5500	5500	6000	6000	1378	44	4232	5137	4775	4864
Madhesh	-	-	7220	8000	7190	7800	7800	8000	89	7221	6814	6593	7200	6582
Bagmati	-	-	30352	35000	40000	38000	38000	38000	14362	16685	21233	25573	29316	38811
Gandaki	-	-	300	655	2000	1000	1000	2000	-	-	498	655	1017	1740
Lumbini	-	5500	10000	15000	15500	20000	46994	35000	11733	13445	14838	14474	14996	17145
Karnali	-	-	-	-	1399	1821	1906	2085	-	-	782	1528	1883	1514
Sudurpashchim	-	-	-	-	-	-	-		-	-	-	-	-	9108
Grand Total	-	5500	48890	64155	71589	74121	101700	91085	27562	37395	48397	53960	59187	79765

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 11: Details of Tourism Fees / Trekking Fees (in Thousand NPR)

Revenue Heading / Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14191- Tourism Fee	**10,000**	**102,000**	**5,500**	**-**	**3,684**	**3,000**	**2,186**	**7,354**	**-**	**1,450**	**3**	**-**	**337**	**148**
Koshi	-	-	-	-	-	-	111	111	-	-	-	-	-	139
Madhesh	-	2,000	5,500	-	200	2,000	76	5,150	-	1,450	-	-	-	9
Bagmati	-	-	-	-	984	-	999	1,093	-	-	3	-	337	-
Gandaki	-	100,000	-	-	2,500	1,000	1,000	1,000	-	-	-	-	-	-
Lumbini	10,000	-	-	-	-	-	-		-	-	-	-	-	-
Karnali	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sudurpashchim	-	-	-	-	-	-	-		-	-	-	-	-	-
14192- Trekking Fee	**-**	**-**	**1,000**	**404**	**2,500**	**11,000**	**1,200**	**1,800**	**-**	**4,588**	**551**	**404**	**431**	**424**
Koshi	-	-	-	-	1,000	1,000	1,000	1,000	-	4,588	-	-	-	-
Madhesh	-	-	-	-	-	-	-		-	-	-	-	-	-
Bagmati	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Gandaki	-	-	1,000	404	1,500	10,000	200	800	-	-	551	404	431	422
Lumbini	-	-	-	-	-	-	-		-	-	-	-	-	-
Karnali	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sudurpashchim	-	-	-	-	-	-	-		-	-	-	-	-	-
Grand Total	**10,000**	**102,000**	**6,500**	**404**	**6,184**	**14,000**	**3,386**	**9,154**	**-**	**6,038**	**554**	**404**	**768**	**572**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 12: Radio FM and Television Operation Fees (in Thousand NPR)

Revenue Heading / Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
11615- Television Operation Fee	-	-	**5,500**	-	-	-	-	-	-	**4,000**	-	-	-	-
Bagmati	-	-	5,500	-	-	-	-	-	-	4,000	-	-	-	-
14254- Radio/FM Broadcasting License Fee	-	-	**3,263**	**2,525**	**6,830**	**5,800**	**5,568**	**5,255**	**75**	**2,478**	**3,308**	**6,454**	**5,387**	**5,273**
Koshi	-	-	30	25	2,500	1,000	1,000	500	-	-	22	1,864	247	1,164
Madhesh	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bagmati	-	-	3,233	2,500	3,000	2,700	2,700	2,700	75	2,478	2,671	3,055	3,608	3,361
Gandaki	-	-	-	-	-	-	-		-	-	-	-	-	-
Lumbini	-	-	-	-	1,000	-	-	500	-	-	-	-	-	-
Karnali	-	-	-	-	330	2,100	1,868	1,555	-	-	615	1,535	1,532	748
Sudurpashchim	-	-	-	-	-	-	-		-	-	-	-	-	-
14255- Television Broadcasting License Fee	-	-	-	**10,988**	**13,500**	**8,610**	**8,666**	**7,510**	-	**900**	**10,439**	**5,203**	**3,706**	**3,558**
Koshi	-	-	-	-	5,500	1,000	500	200	-	-	-	215	105	400
Madhesh	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bagmati	-	-	-	9,988	8,000	7,200	7,200	7,200	-	100	9,639	4,988	3,501	2,688
Gandaki	-	-	-	-	-	-	-		-	-	-	-	-	-
Lumbini	-	-	-	1,000	-	410	856		-	800	800	-	-	160
Karnali	-	-	-	-	-	-	110	110	-	-	-	-	100	310
Sudurpashchim	-	-	-	-	-	-	-		-	-	-	-	-	-
Grand Total	-	-	**8,763**	**13,513**	**20,330**	**14,410**	**14,234**	**12,765**	**75**	**7,378**	**13,747**	**11,657**	**9,093**	**8,831**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 13: Details of Business Registration Fees (in Thousand NPR)

Revenue Heading / Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14253- Business Registration Fees	-	165000	1050505	1345086	1035068	1175140	1253026	1855300	140038	475345	850581	733703	619964	635662
Koshi	-	-	164389	100000	92950	90000	90000	90000	-	129397	142313	95121	65069	85457
Madhesh	-	-	117576	140000	101790	200000	200000	100000	-	56151	146801	116376	101800	74783
Bagmati	-	-	566530	850000	550000	525000	525000	525000	-	183943	372841	375687	315307	307580
Gandaki	-	-	202010	55086	110188	80000	190000	950000	-	-	81554	55086	53863	35163
Lumbini	-	165000	-	200000	150000	250000	248026	150000	140038	105854	80845	74147	72488	71617
Karnali	-	-	-	-	30140	30140	-	40300	-	-	26227	17286	11437	10785
Sudurpashchim	-	-	-	-	-	-	-		-	-	-	-	-	50277
Grand Total	-	165000	1050505	1345086	1035068	1175140	1253026	1855300	140038	475345	850581	733703	619964	635662

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 14: Details of Fees and Penalties/Fines (in Thousand NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14311- Judicial Punishment, Fines, and Seizures	**30100**	**-**	**207**	**210**	**2269**	**541**	**1273**	**3840**	**-**	**161**	**57**	**592**	**7619**	**829**
Koshi	-	-	100	-	100	100	100	100	-	20	-	35	19	50
Madhesh	100	-	107	110	47	-	-	3000	-	107	20	250	7100	59
Bagmati	-	-	-	-	-	-	-	-	-	-	5	-	38	58
Gandaki	-	-	-	0	2000	200	100	100	-	-	2	0	22	311
Lumbini	-	-	-	100	100	150	980	400	-	34	14	188	126	322
Karnali	-	-	-	-	22	91	93	240	-	-	16	119	314	29
Sudurpashchim	30000	-	-	-	-	-	-		-	-	-	-	-	-
14312- Administrative Penalties, Fines, and Seizures	**220000**	**279165**	**98605**	**111889**	**280781**	**113602**	**249409**	**401230**	**36881**	**130489**	**127406**	**104243**	**139736**	**193928**
Koshi	220000	262000	50000	3200	5000	5000	5000	5000	4265	6415	5178	6715	11454	28190
Madhesh	-	-	605	7500	7118	8000	8000	5000	431	606	6757	5639	7100	4305
Bagmati	-	-	6000	8000	9000	9500	30824	43154	9201	22171	29192	11560	26052	34036
Gandaki	-	-	-	31344	200000	30000	98000	65000	-	51286	51993	31351	46058	55669
Lumbini	-	17000	35000	60000	30000	17500	62528	220000	14164	47649	22621	25669	21778	15397
Karnali	-	-	-	-	20680	24680	24810	41012	-	-	7758	17189	8536	43948
Sudurpashchim	-	165	7000	1845	8983	18922	20247	22064	8820	2362	3907	6119	18758	12383
Grand Total	**250100**	**279165**	**98812**	**112099**	**283050**	**114143**	**250682**	**405070**	**36881**	**130650**	**127463**	**104834**	**147355**	**194757**

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Avg.	35729	39881	14116	16014	40436	16306	35812	57867	5269	18664	18209	14976	21051	27822

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 15: Details of Vehicle Tax (Amount in Million NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
11456														
Vehicle Tax Received through Revenue Sharing	**6,560**	**8,111**	**9,821**	**11,497**	**15,899**	**15,538**	**18,866**	**18,075**	**8,210**	**7,119**	**10,751**	**11,423**	**15,350**	**12,708**
Koshi	1,416	1,551	1,323	1,060	1,320	1,350	1,410	1,840	2,116	926	1,125	1,193	1,195	1,389
Madhesh	-	-	455	1,100	3,215	2,800	2,800	3,000	720	758	1,720	2,107	2,009	1,440
Bagmati	3,600	4,500	5,500	6,500	7,250	7,250	7,500	8,250	3,902	3,896	4,951	5,866	6,146	6,116
Gandaki	-	-	1,055	1	1,081	1,200	1,331	1,380	-	-	827	-	1,081	1,168
Lumbini	1,140	1,600	1,200	2,200	2,000	2,000	4,800	2,900	998	1,113	1,446	1,542	4,143	1,754
Karnali	-	83	-	190	138	247	172	148	84	49	215	159	117	142
Sudurpashchim	404	378	288	446	895	691	853	558	390	377	467	556	660	700
Grand Total	**6,560**	**8,111**	**9,821**	**11,497**	**15,899**	**15,538**	**18,866**	**18,075**	**8,210**	**7,119**	**10,751**	**11,423**	**15,350**	**12,708**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 16: Details of House and Land Registration Fees (Amount in Million NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
11315- House and Land Registration Fees Received through Revenue Sharing	**2128**	**9349**	**8967**	**11268**	**12785**	**14432**	**16602**	**16885**	**6253**	**8995**	**11106**	**16059**	**10707**	**10969**
Koshi	1046	1172	1315	1250	1500	1450	1450	1500	847	328	1390	1651	1025	1257
Madhesh	2	-	896	500	-	3500	3500	3450	-	454	797	1500	1871	1732
Bagmati	-	4500	5500	6850	7850	6750	7700	7700	3931	6445	6798	9841	5489	5489
Gandaki	-	1650	400	1037	1000	110	1016	1250	436	572	696	1037	705	760
Lumbini	680	1500	660	1250	1800	2000	2298	2300	817	814	1066	1481	1109	1210
Karnali	-	165	-	123	125	148	137	205	-	91	19	144	104	129
Sudurpashchim	399	363	196	258	510	474	501	480	223	290	339	406	404	392
14177- House and Land Registration Fee	**3500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**206**	**442**	**-**	**-**	**-**	**-**
Bagmati	3500	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	**5628**	**9349**	**8967**	**11268**	**12785**	**14432**	**16602**	**16885**	**6459**	**9437**	**11106**	**16059**	**10707**	**10969**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 17: Details of Entertainment Tax (in Thousand NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
11471- Entertainment Tax Received through Revenue Sharing														
Koshi	-	-	-	500	2500	1000	1000	3000	-	-	18	5	718	2385
Madhesh	-	-	-	100	-	-	-	-	-	-	-	-	-	-
Bagmati	50000	150000	150000	350000	5000	13500	53500	66875	1399	7999	963	7240	5841	7004
Gandaki	-	2000	7500	-	5000	5000	7000	5000	-	1390	-	-	1418	5422
Lumbini	-	10000	5000	7500	1500	500	11293	11000	-	250	160	876	4313	5230
Karnali	-	1180	-	-	-	-	-	504	-	-	-	-	-	14
Sudurpashchim	-	1000	500	1000	1000	1000	1000	1000	-	-	-	-	6	95
Grand Total	**50000**	**164180**	**163000**	**359100**	**15000**	**21000**	**73793**	**87379**	**1399**	**9639**	**1141**	**8121**	**12296**	**20150**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 18: Details of Advertisement Tax (in Thousand NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
11472 - Advertisement Tax Received through Revenue Sharing	**51,500**	**1,68,035**	**1,63,917**	**3,63,079**	**52,681**	**30,696**	**48,171**	**57,847**	**61,754**	**50,128**	**55,720**	**56,719**	**32,124**	**30,433**
Koshi	-	2,500	2,255	2,000	9,540	5,000	6,000	6,500	1,758	5	1,796	4,497	5,654	7,025
Madhesh	-	-	162	100	641	1,000	1,000	5,000	-	162	6	-	600	166
Bagmati	50,000	1,50,000	1,50,000	3,50,000	30,000	17,500	19,000	23,750	59,934	43,034	51,328	49,104	17,092	17,766
Gandaki	-	2,000	3,000	479	10,000	3,000	2,278	2,278	-	3,522	15	479	270	1,423
Lumbini	-	10,000	7,500	10,000	2,000	2,500	18,113	18,000	62	3,179	1,813	1,768	6,919	2,763
Karnali	-	1,180	-	-	-	-	-	2,006	-	-	-	-	-	-
Sudurpaschim	1,500	2,355	1,000	500	500	1,696	1,780	313	-	226	762	871	1,589	1,290
Grand Total	**51,500**	**1,68,035**	**1,63,917**	**3,63,079**	**52,681**	**30,696**	**48,171**	**57,847**	**61,754**	**50,128**	**55,720**	**56,719**	**32,124**	**30,433**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 19: Revenue from Sale of Dahattar-Bahattar Items (Amount in Lakh NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14157- Revenue from Sale of Dahattar-Bahattar Items	5,000	31,227	28,182	36,037	17,571	22,938	29,733	28,497	6,469	13,571	16,552	13,949	12,743	14,165
Koshi	-	-	721	1,000	1,500	2,000	3,000	4,931	-	47	3,376	2,804	1,531	2,500
Madhesh	-	-	678	100	-	3,500	3,500	500	37	678	47	147	1,478	327
Bagmati	5,000	25,000	20,557	27,500	10,000	10,000	14,000	14,000	5,250	9,870	8,895	6,733	6,588	6,432
Gandaki	-	1,000	-	1,397	1,500	2,146	2,723	2,750	-	1,050	2,238	1,431	706	1,316
Lumbini	-	4,515	5,826	6,000	4,000	5,000	5,950	5,000	-	1,699	1,870	2,495	2,313	3,282
Karnali	-	12	-	-	171	291	279	705	1,085	-	94	303	111	224
Sudurpashchim	-	700	400	40	400	1	281	611	97	229	31	35	16	84
Grand Total	5,000	31,227	28,182	36,037	17,571	22,938	29,733	28,497	6,469	13,571	16,552	13,949	12,743	14,165

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 20: Revenue from Forest Royalties (in Thousand NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14153- Forest Royalties Received through Revenue Sharing	**50000**	**4220199**	**245442**	**377266**	**169433**	**382854**	**473901**	**542825**	**96800**	**246729**	**195801**	**349736**	**200247**	**433005**
Koshi	-	84199	45474	35000	40000	70000	77059	90056	-	21262	34507	68055	-	86358
Madhesh	-	-	9968	150000	-	50000	50000	70000	-	-	21262	21548	22300	144040
Bagmati	-	100000	-	47020	30713	39612	157513	157513	-	-	27922	39612	-	77513
Gandaki	-	4000000	150000	17083	18500	62465	43190	58400	-	150000	60962	53683	53682	42634
Lumbini	50000	36000	40000	100000	45000	74920	91252	95000	65629	75467	-	110067	76252	34565
Karnali	-	-	-	-	-	28600	24111	27728	31171	-	12702	27420	18663	24220
Sudurpashchim	-	-	-	28163	35220	57257	30776	44128	-	-	38446	29351	29350	23674
14171- Forest Royalties	**45000**	**45000**	**48000**	-	-	-	-	-	**75440**	**55989**	-	-	-	-
Koshi	45000	45000	-	-	-	-	-	-	-	-	-	-	-	-
Madhesh	-	-	-	-	-	-	-	-	-	9968	-	-	-	-
Bagmati	-	-	48000	-	-	-	-	-	75440	46021	-	-	-	-

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Grand Total	95000	4265199	293442	377266	169433	382854	473901	542825	172240	302718	195801	349736	200247	433005

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 21: Details of Electricity Royalties (Amount in Lakh NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	075-76	076-77	077-78	078-79	079-80	080-81
14155- Water Resource Royalties Received through Revenue Sharing	-	**240**	**350**	-	-	**0**	**I**	**I**	**954**	**100**	-	-	-	-
Gandaki	-	-	100	-	-	0	I	I	-	100	-	-	-	-
Lumbini	-	240	250	-	-	-	-	-	954	-	-	-	-	-
Karnali	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14156- Electricity Royalties Received through Revenue Sharing	-	**2966**	**3355**	**7485**	**9683**	**8765**	**10346**	**8333**	-	**5605**	**6286**	**8463**	**3463**	**7888**
Koshi	-	166	255	375	475	600	516	603	-	-	375	597	-	579
Madhesh	-	-	-	-	1478	-	-	-	-	-	-	-	-	-
Bagmati	-	1000	-	3464	3852	4026	3568	3924	-	3464	3502	3603	-	3568
Gandaki	-	-	1300	2285	2900	3283	3848	1425	-	1159	2342	2510	2510	2780
Lumbini	-	1800	1800	1250	850	750	2297	2000	-	983	-	1623	831	870
Karnali	-	-	-	-	-	25	21	24	-	-	2	24	16	5
Sudurpashchim	-	-	-	III	128	81	96	357	-	-	66	105	105	87
Grand Total	-	**3206**	**3705**	**7485**	**9683**	**8765**	**10347**	**8334**	**954**	**5705**	**6286**	**8463**	**3463**	**7888**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 22: Details of Mining and Mineral Royalties (Amount in Lakh NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
14154- Mining and Mineral Royalties Received through Revenue Sharing	**500.0**	**1,069.1**	**728.1**	**2,149.8**	**2,511.5**	**2,102.8**	**2,432.5**	**1,871.3**	**899.9**	**1,611.0**	**621.7**	**3,536.1**	**1,373.8**	**1,297.1**
Koshi	-	69.1	128.1	125.0	250.0	100.0	155.0	181.1	-	-	124.1	107.8	-	173.7
Madhesh	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bagmati	-	500.0	-	265.2	542.0	580.1	411.3	452.5	-	265.2	492.7	572.1	-	411.3
Gandaki	-	-	100.0	7.8	11.5	8.4	48.1	25.0	-	100.0	4.3	23.0	23.0	21.5
Lumbini	500.0	500.0	500.0	1,750.0	1,700.0	1,400.0	1,807.3	1,200.0	899.9	1,245.8	-	2,819.8	1,339.6	684.6
Karnali	-	-	-	-	-	12.4	10.5	12.0	-	-	0.2	10.4	8.1	5.7
Sudurpashchim	-	-	-	1.8	8.0	1.9	0.4	0.7	-	-	0.4	3.1	3.1	0.4
14172- Mining Royalty	**-**	**-**	**395.0**	**-**	**-**	**-**	**-**	**-**	**440.3**	**-**	**-**	**-**	**-**	**-**
Bagmati	-	-	395.0	-	-	-	-	-	440.3	-	-	-	-	-
Grand Total	**500.0**	**1,069.1**	**1,123.1**	**2,149.8**	**2,511.5**	**2,102.8**	**2,432.5**	**1,871.3**	**1,340.2**	**1,611.0**	**621.7**	**3,536.1**	**1,373.8**	**1,297.1**

Source: Analyzed based on data from the Provincial Budget Statement 2025/26 and the Ministry of Federal Affairs and General Administration (MoFAGA) for the fiscal years 2018/19–2023/24.

Annex 23: Details of Grants (Amount in Lakh NPR)

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
13111- Bilateral Foreign Current Grant	**-**	**-**	**-**	**261**	**257**	**150**	**106**	**-**	**-**	**-**	**-**	**51**	**-**	**-**
Koshi	-	-	-	261	257	150	106	-	-	-	-	51	-	-
13231- Other Foreign Current Grants	**-**	**-**	**-**	**46**	**21**	**19**	**13**	**19**	**-**	**-**	**18**	**-**	**-**	**15**
Karnali	-	-	-	21	21	19	13	19	-	-	18	-	-	15
Sudrupaschim	-	-	-	25	-	-	-	-	-	-	-	-	-	-
13311- Equalization Grants	**28,627**	**48,213**	**45,628**	**57,955**	**60,455**	**59,052**	**60,000**	**60,660**	**43,283**	**52,400**	**55,195**	**57,955**	**53,752**	**44,455**
Koshi	6,610	8,163	7,998	8,568	9,008	8,784	8,943	8,983	6,610	5,265	7,998	8,568	7,882	6,510
Madhesh	103	-	7,086	7,393	6,839	7,799	7,799	7,722	-	7,086	7,020	7,393	6,838	6,472
Bagmati	5,970	7,596	7,717	7,859	8,405	8,014	8,243	8,285	5,970	7,596	7,717	7,859	7,354	5,939
Gandaki	-	7,112	7,113	7,423	7,928	7,623	7,639	7,739	6,777	7,112	7,113	7,423	6,937	5,649
Lumbini	7,470	7,540	7,637	8,026	8,542	8,148	8,286	8,444	6,870	7,540	7,637	8,026	7,474	6,039
Karnali	-	9,848	-	10,142	10,726	10,164	10,366	10,560	9,131	9,848	9,633	10,142	9,386	7,533
Sudurpashchim	8,475	7,952	8,077	8,544	9,008	8,520	8,723	8,926	7,925	7,952	8,077	8,544	7,882	6,314
13312- Conditional Current Grant	**40,019**	**34,686**	**25,642**	**19,535**	**15,675**	**14,338**	**16,173**	**18,206**	**40,684**	**34,252**	**27,817**	**24,172**	**12,693**	**16,270**
Koshi	13,277	7,044	7,137	3,100	2,370	1,978	2,235	2,545	10,547	5,108	8,234	8,140	2,393	1,934

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Madhesh	129	-	6,957	2,299	2,271	2,009	2,009	2,211	-	6,957	6,970	3,013	2,271	1,469
Bagmati	10,616	7,465	2,547	2,658	2,738	2,422	2,380	2,565	8,557	7,978	2,547	2,658	3,389	2,408
Gandaki	-	5,352	4,208	5,029	1,827	2,219	2,159	1,911	4,857	6,024	4,817	5,029	1,861	2,857
Lumbini	9,670	7,770	2,802	2,536	2,694	2,434	4,193	2,699	6,613	8,185	2,199	2,222	-	3,894
Karnali	-	2,504	-	1,950	1,933	1,591	1,557	4,446	5,655	-	1,850	1,479	1,336	2,655
Sudurpashchim	6,328	4,551	1,991	1,963	1,844	1,684	1,639	1,829	4,455	-	1,200	1,630	1,444	1,053
13313- Special Current Grant	**657**	**3,952**	**540**	**4,026**	**4,735**	**2,244**	**2,927**	**1,879**	**839**	**1,050**	**1,272**	**1,682**	**767**	**1,955**
Koshi	657	2,000	-	201	145	150	87	341	657	-	535	593	145	150
Madhesh	-	-	-	3,276	3,667	1,549	1,549	290	-	-	-	195	195	1,389
Bagmati	-	750	540	549	205	90	135	134	182	860	540	549	-	329
Gandaki	-	500	-	-	-	70	745	215	-	190	-	94	-	-
Lumbini	-	702	-	-	668	160	143	495	-	-	197	176	403	-
Karnali	-	-	-	-	50	225	270	405	-	-	-	74	24	86
13314- Supplementary Grant Recurrent	**2,000**	**900**	**1,186**	**-**	**173**	**840**	**-**	**514**	**920**	**791**	**-**	**3,760**	**-**	**1,604**
Koshi	-	-	536	-	-	-	-	-	-	141	-	-	-	-
Madhesh	-	-	650	-	173	-	-	-	-	650	-	3,760	-	594
Bagmati	-	-	-	-	-	840	-	-	-	-	-	-	-	300
Gandaki	-	-	-	-	-	-	-	514	-	-	-	-	-	227
Lumbini	-	900	-	-	-	-	-	-	920	-	-	-	-	483

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Karnali	2,000	-	-	-	-	-	-	-	-	-	-	-	-	-
13315- Special Grant	**-**	**2,210**	**4,185**	**5,601**	**4,701**	**5,273**	**4,522**	**2,387**	**1,386**	**1,030**	**3,664**	**1,510**	**2,354**	**2,361**
Koshi	-	-	-	393	330	610	694	217	-	-	-	-	330	610
Madhesh	-	-	-	588	195	-	-	105	-	-	-	393	173	316
Bagmati	-	1,000	3,490	2,758	2,290	2,730	2,491	1,405	-	410	2,535	558	790	730
Gandaki	-	-	-	-	655	610	521	365	-	-	-	-	430	610
Lumbini	-	-	210	635	484	490	-	185	-	-	31	237	484	-
Karnali	-	210	-	613	-	438	530	-	908	270	613	200	-	-
Sudurpashchim	-	1,000	485	614	748	395	286	111	478	350	485	122	148	95
13316- Supplementary Grant Recurrent	**600**	**1,000**	**234**	**-**	**-**	**1,300**	**-**	**898**	**176**	**1,345**	**850**	**347**	**-**	**390**
Koshi	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Madhesh	-	-	234	-	-	-	-	358	-	234	32	347	-	390
Bagmati	600	-	-	-	-	1,300	-	-	-	-	818	-	-	-
Gandaki	-	-	-	-	-	-	-	-	122	1,112	-	-	-	-
Lumbini	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Karnali	-	-	-	-	-	-	-	540	-	-	-	-	-	-
Sudurpashchim	-	1,000	-	-	-	-	-	-	54	-	-	-	-	-
13317- Supplementary Grant Capital	**680**	**7,550**	**4,906**	**5,725**	**6,101**	**3,102**	**6,200**	**1,869**	**1,332**	**1,544**	**4,021**	**3,722**	**4,771**	**2,907**

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Koshi	680	4,000	843	1,165	920	730	655	392	680	13	843	1,165	920	730
Madhesh	-	-	-	347	585	-	-	-	-	-	-	-	585	-
Bagmati	-	2,000	818	575	1,040	-	855	235	600	647	-	575	1,040	1,300
Gandaki	-	750	1,499	874	837	-	1,190	640	-	-	1,499	874	600	259
Lumbini	-	800	483	722	739	840	795	-	52	153	319	383	739	-
Karnali	-	-	-	814	1,215	762	1,285	-	-	165	98	155	326	-
Sudurpashchim	-	-	1,263	1,229	765	770	1,420	603	-	566	1,263	570	561	619
13321- Conditional Capital Grant	**200**	**2,768**	**8,731**	**16,168**	**32,941**	**19,323**	**8,627**	**12,148**	**-**	**6,696**	**12,611**	**12,685**	**26,897**	**10,239**
Koshi	-	-	-	5,129	6,326	3,865	1,929	2,026	-	-	-	-	4,116	3,601
Madhesh	-	-	-	-	-	-	-	2,051	-	-	418	-	4,769	990
Bagmati	-	-	3,298	3,077	6,597	3,346	1,606	2,329	-	-	3,298	4,026	4,823	3,340
Gandaki	-	-	-	-	5,091	2,722	1,440	1,445	-	-	-	-	3,099	-
Lumbini	-	-	3,012	3,695	6,018	3,402	-	1,963	-	-	4,840	4,163	6,321	533
Karnali	-	2,768	-	2,038	3,764	3,159	2,158	-	-	2,283	2,038	2,219	2,054	293
Sudurpashchim	200	-	2,421	2,230	5,144	2,828	1,495	2,334	-	4,412	2,018	2,278	1,716	1,483
15113- Return of Grant	**-**	**-**	**2,279**	**3,110**	**2,200**	**2,175**	**1,392**	**653**	**-**	**1,729**	**3,009**	**2,866**	**2,655**	**1,237**
Koshi	-	-	900	330	740	300	300	200	-	197	679	330	413	81
Madhesh	-	-	156	200	298	300	300	300	-	156	200	168	298	160
Bagmati	-	-	823	1,000	1,000	1,050	631	86	-	1,066	1,037	1,367	1,348	640

Revenue Heading/Province	Projected								Actual					
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Gandaki	-	-	-	80	120	70	48	5	-	-	42	80	74	20
Lumbini	-	-	400	1,500	-	400	-	-	-	309	1,008	870	471	198
Karnali	-	-	-	-	42	55	113	62	-	-	44	50	52	129
Sudurpashchim	-	-	-	-	-	-	-	-	-	-	-	-	-	10
Grand Total	72,784	101,279	93,330	112,425	127,258	107,815	99,961	99,232	88,619	100,839	108,456	108,749	103,890	81,434

Source: *Analyzed from the Provincial Budget Statements 2025/26 and the Ministry of Finance, Economic Survey data for FY 2018/19– 2023/24*

Annex 24: Expenditure Details of Provinces (in Crores)

Province	2018/19			2019/20			2020/21		
	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Recurrent Expenditure	Capital Expenditure	Total Expenditure	Recurrent Expenditure	Capital Expenditure	Total Expenditure
Koshi	976.43	1143.87	2120.29	1196.66	1786.66	2983.32	1208.53	1586.60	2795.13
Madhesh	662.75	846.49	1509.24	978.20	823.52	1801.72	864.07	1390.51	2254.58
Bagmati	1109.83	955.44	2065.27	1226.88	1568.20	2795.09	1558.66	2000.82	3559.48
Gandaki	521.10	871.70	1392.80	642.69	1398.67	2041.36	802.78	1759.56	2562.34
Lumbini	686.13	1017.28	1703.41	1068.58	1472.13	2540.71	1359.88	1850.42	3210.30
Karnali	460.11	541.52	1001.63	734.49	953.53	1688.02	847.15	1357.05	2204.20
Sudurpashchim	693.08	723.26	1416.34	832.36	928.83	1761.20	1036.63	1260.20	2296.83
Total	**5109.43**	**6099.56**	**11208.99**	**6679.87**	**8931.55**	**15611.42**	**7677.70**	**11205.16**	**18882.86**

Source: *Economic Survey 2081/82, Ministry of Finance*

Province	2021/22				2022/23				2023/24			
	Recurrent Expenditure	Capital Expenditure	Fiscal Arrangement	Total Expenditure	Recurrent Expenditure	Capital Expenditure	Fiscal Arrangement	Total Expenditure	Recurrent Expenditure	Capital Expenditure	Fiscal Arrangement	Total Expenditure
Koshi	1312.72	1683.92	0	2996.64	1264.52	1811.25	0	3075.78	1167.92	1634.83	0	2802.75
Madhesh	1033.6	1192.44	0	2226.05	1067.03	1619.95	0	2686.99	925.56	1528.93	0	2454.49
Bagmati	1569.99	2099.51	130	3799.5	1798.24	2827.96	60	4686.2	1597.25	2854.07	0	4451.32
Gandaki	758.01	1446.38	0	2204.39	835.35	1526.14	0	2361.49	757.67	1462.94	0	2220.61
Lumbini	1264.69	1740.78	0	3005.47	1250.76	1773.66	0	3024.42	1041.89	1601.78	0	2643.67
Karnali	909.37	1507.11	11.72	2428.19	949.03	1277.65	0	2226.69	917.51	1069.31	0	1986.82
Sudurpashchim	892.53	1195.21	0	2087.74	824.86	1581.45	0	2406.31	794.9	1056.46	0	1851.36
Total	**7740.91**	**10865.4**	**141.72**	**18748**	**7989.8**	**12418.1**	**60**	**20467.9**	**7202.71**	**11208.3**	**0**	**18411**

Source: *Economic Survey 2081/82, Ministry of Finance*

Annex 25: Integrated Economic Code Classification and Explanation, 2018 (with Amendments)

Revenue Code No.	Type of Tax / Revenue Source	Revenue Code No.	Type of Tax / Revenue Source
Direct Tax			
11136	Tax on agricultural income	11456	Vehicle tax received through revenue sharing
11452	Other taxes levied on permission for use and operation of goods	11611	Taxes paid by businesses
Income from Production and Service Sales			
14211	Income from sale of agricultural products	14191	Tourism fee
14192	Trekking fee	14212	Income from sale of government property
14213	Income from other sales		
Service Charges and Fees			
14216	Fees for private water taps	14217	Fees for canals and irrigation channels
14219	Other service charges and sales	14221	Judicial fees
14229	Other administrative service fees	14253	Business registration fees
14254	Radio/FM operation fees	14255	Television operation fees
14256	Driver's license and vehicle registration (Blue Book) fees	14263	Water resource-related fees
14264	Other income from forest areas	14529	Other revenue
Income Shared with Local Levels			
14157	Income from sale of shared properties (Dahattar-Bahattar sale)	11471	Entertainment tax received through revenue sharing
11472	Advertisement tax received through revenue sharing	11315	Land and house registration fees received through revenue sharing
Revenue Sharing			
11411	Value Added Tax (VAT) received through revenue sharing	11421	Excise duty received through revenue sharing

	Royalty		
14153	Forest royalty received through revenue sharing	14154	Mining and mineral royalty received through revenue sharing
14156	Electricity-related royalty received through revenue sharing	14158	Mountaineering royalty received through revenue sharing
14159	Non-shared royalty received from other sources		

	Grants		
13311	Equalization grant	13312	Conditional grant (current)
13313	Special grant (current)	13314	Complementary grant (current)
13315	Other grants (current)	13316	Complementary grant (current)
13317	Complementary grant (capital)	13321	Conditional grant (capital)
13322	Special grant (capital)	13323	Complementary grant (capital)

Source: Integrated Economic Code Classification and Explanation, 2018 (with Amendments)

Annex 26: Revenue-related Recommendations of the Federalism Implementation Study and Monitoring Committee

The National Assembly formed a Parliamentary Special Committee on the Study and Monitoring of Federalism Implementation in Jestha 2079 (May/June 2022). The committee made 99 recommendations across 13 thematic areas, including political, administrative, and fiscal federalism. Among them are recommendations related to enhancing provincial tax revenue as listed below. However, the concerned authorities have not yet paid adequate attention to implementing these recommendations.

S.N.	Recommendation	Recommendation No.
1	Identify the details of revenue collection and the revenue capacity of provinces and local levels.	57
2	Provincial and local governments should prepare a revenue improvement plan and prioritize mobilization of internal resources.	58
3	Improve the collection of advertisement tax and entertainment tax, which are listed under the exclusive powers of provinces and local levels but are found to be extremely low even in major municipalities such as Kathmandu.	59
4	Introduce a system for collecting land and house registration fees based on market value and improve the administrative aspects of the Land Revenue and Survey Offices.	60
5	Maintain uniformity in the rate of vehicle tax across all provinces and make a policy provision to allocate a certain share of this tax for forest and environmental conservation and promotion.	61
6	Amend the laws to resolve ambiguities in the collection and sharing of local natural resources such as stones, gravel, sand, and other mining and river-based materials listed under the concurrent powers of provinces and local levels.	62
7	Enact clear legal provisions defining the roles of all three tiers of government in the collection, distribution, regulation, and management of mining and river-based materials (stones, gravel, sand), as well as in the operation and regulation of crusher industries; remove crusher industries operating in violation of existing laws.	63
8	As vested interest groups dominate the exploitation of natural resources, leading to environmental degradation due to excessive extraction, formulate necessary legal and policy measures for prevention and control.	64
9	Formulate an integrated law to simplify the mobilization and management of natural resources.	65

Source: Federalism Implementation Study and Monitoring Committee Report, National Assembly, 2079 (2022)

Annex 27: Status of Implementation of the Recommendations of the National Natural Resources and Fiscal Commission

S.N.	Recommendations Provided by the Commission	Concerned Government	Status of Implementation
1	According to Schedule 6 of the Constitution of Nepal, vehicle tax falls under the exclusive jurisdiction of the provincial government, and according to Schedule 8, it also falls under the exclusive jurisdiction of local governments. For effective administration, Section 5 of the Intergovernmental Fiscal Management Act, 2074, provides for unified tax administration to collect vehicle taxes. Although provincial laws allow vehicle tax collection under different headings, such as driver's license fees and vehicle registration (Blue Book) fees, such collected revenue has not been shared between provincial and local governments. Therefore, all vehicle tax revenues should be deposited into the divisible fund and shared according to the Intergovernmental Fiscal Management Act, 2074.	Provincial Government	Not implemented.
2	The law provides that 40% of the total vehicle tax collected by the provincial government should be deposited into the Local Divisible Fund before distribution, and the amount should then be transferred monthly to the local consolidated fund as per the NNRFC's recommendation. However, provincial governments have not been transferring the shared vehicle tax amount monthly to local consolidated funds. This non-compliance has created difficulties in local resource management. Hence, all provinces must mandatorily transfer the shared vehicle tax amount monthly to the local consolidated fund.	Provincial Government	Not implemented.
3	When federal revenue collection does not meet its target, the federal government should inform provincial and local governments promptly about the revised targets. Likewise, provincial and local governments should review and revise their programs accordingly in line with the federal government's revenue review.	Government of Nepal, Provincial and Local Governments	Not implemented.
4	Vehicle Tax: Traffic police currently deposit traffic-related fines into the Federal Consolidated Fund. Such fines should instead be deposited into the Provincial Divisible Fund.	Government of Nepal	Not implemented.

5	Use of Natural Resources (Stone, Gravel, Sand): There is a need to define mining and river-based materials and, given that the Constitution (Schedules 5–9) assigns mining and mineral exploration to the federal government, exploration to the provincial government, and conservation to the local government, the existing Mines and Minerals Act, 2042, should be updated to clearly define the roles and responsibilities of all three levels of government. Furthermore, contradictory legal and procedural provisions related to river-based materials should be revised to clarify the roles, duties, and rights of the federal, provincial, and local governments in operation, management, monitoring, regulation, and revenue sharing.	Government of Nepal	Not implemented.
6	House and Land Registration Fees: These fees are currently collected through the Land Revenue Offices of the federal government at rates determined by the provinces. To empower local governments, a system should be established for house and land registration to be carried out directly through local governments.	Government of Nepal	Not implemented.
7	Entertainment Tax: Section 5A of the Intergovernmental Fiscal Management Act, 2074, authorizes provinces to set the entertainment tax rate and rural/municipal governments to collect it. However, when foreign films are screened in Nepal, the Department of Internal Revenue (federal) collects film development fees, leading to double taxation. Therefore, additional provisions should be made to improve tax administration efficiency and prevent double taxation.	Government of Nepal	Not implemented.

Source: Sixth Annual Report of the National Natural Resources and Fiscal Commission (NNRFC), 2024

Annex 28: Sources of Provincial Budgets for Fiscal Year 2082/83 (in Billion NPR)

Province	Total Budget	Grant	Revenue Sharing	Loan	Cash Balance	Internal Tax Revenue
Koshi	35.88	14.51	12.74		3.13	5.5
Madhesh	46.98	12.74	12.35	2	10.38	9.51
Bagmati	67.47	13.82	12.84		16.8	24.01
Gandaki	31.98	12.23	9.79	1.75	2.24	5.97
Lumbini	38.91	14.02	11.87		2	11.02
Karnali	32.99	16.04	10.27		5.7	0.98
Sudurpashchim	33.47	14.21	9.87		7.67	1.72
Total	287.7	97.6	79.7	3.8	47.9	58.7
Province Avg. (Percent)	100.0	33.9	27.7	1.3	16.7	20.41
Source: Budget Speech Booklets of All Seven Provinces, 2025						