Land and Property Valuation in Nepal

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Presentation outline

- Background on study

- Real estate market and valuation

- Land administration framework and valuation

- Land valuation infrastructure

- Land and property taxation and valuation

- Compulsory land acquisition and valuation

Background

➡ National and subnational studies on land and property valuation: With the World Bank and MoLMCPA

➡ August 2023- March 2024

➡ **Consultations:**   Ministry of Land Management Co-operatives and Poverty Alleviation

Department of Land Management and Archive, Survey Department

Land Management Training Center, Kathmandu University

Nepal Financial Institution Association, Nepal Institute of Chartered Surveyors

Nepal Valuer's Association, National Land Commission

Land Reform and Revenue Office, Survey Office, Lalitpur

Lalitpur Metropolitan City, Godawari Municipality, Lalitpur

Mahalaxmi Municipality, Lalitpur and Shangrila Microsoft System, Pvt Ltd

Governmental Structure

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                    Federal Government
                            |
                Provincial Governments (7)
                            |
                Local Governments (753)
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Metropolitan cities (6)	Sub Metropolitan cities (11)	Municipalities (276)	Rural Municipalities (460)
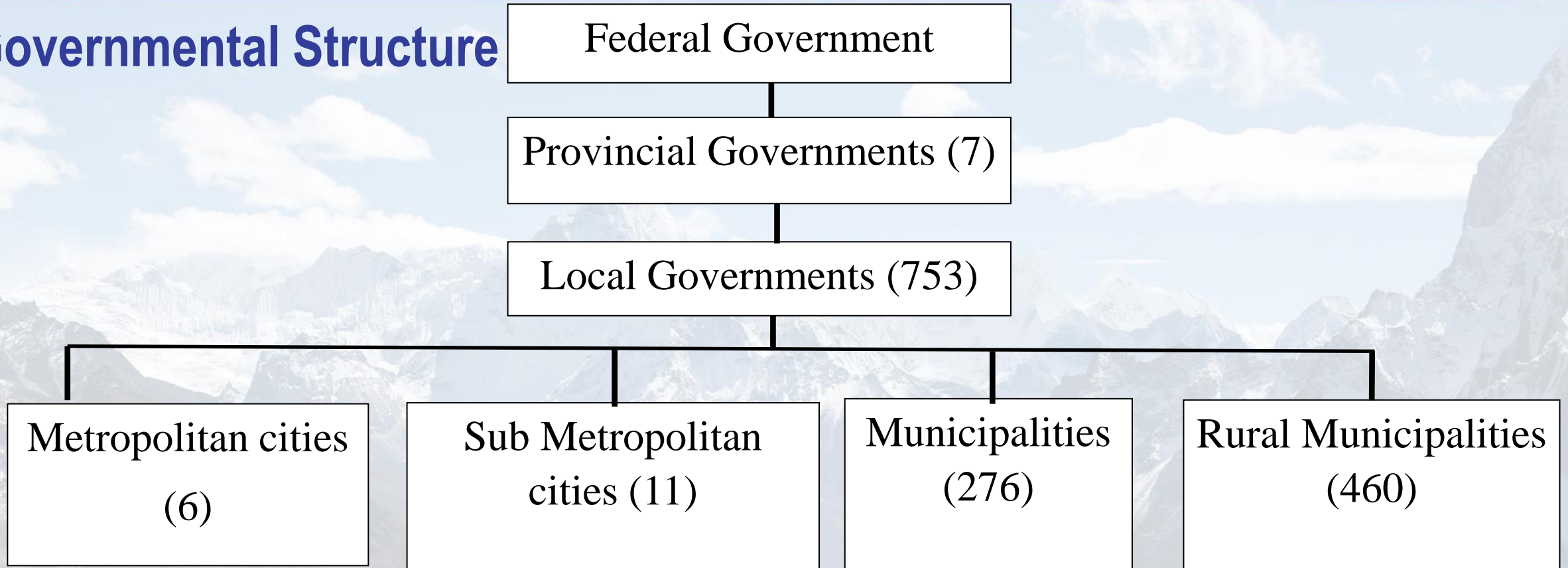
Key findings: Real estate market

➡ **The real estate market has been growing steadily**

✓ Mainly due to urbanization, increasing incomes, and government initiatives to promote investment opportunities.

➡ **Has the potential to establish a modern land and property valuation and taxation system**

✓ Cadastral and land registry records are largely accessible in digital format.

➡ **The real estate market suffers from a notable lack of transparency**

✓ Transacted sale prices are never made public

Recommendation : Real estate market

➡ **Promote a transparent real estate market**

- ✓ Continuous updating of information on real estate market transactions

- ✓ Provide incentives, enforce penalties, and start conducting regular checks

➡ **Formulate Real Estate Valuation Act**

- ✓ Need for a 'leader' institution on land and property valuation

- ✓ Allows for a common valuation standard with a single real property valuation

Key findings: Land administration framework

➡ **The land administration system provides a solid foundation for developing a modern land and property valuation and taxation system, but certain aspects need strengthening**

   ✓ The MoLMCPA is currently working on data harmonization, but more funding is needed nationwide

   ✓ The implementation of land-related policies has been slow.

➡ **Nepal has to formalize remaining non-formal land rights to enhance coverage of land records and property tax base**

   ✓ Still, 1.3 million landless or land-poor people should be eligible for Land Ownership Certificates(LOCs) but so far National Land Commission has issued only a few thousand LOCs.

Recommendations: Land administration framework

✓ Prioritize, expedite, and allocate more funding for harmonization and integration of cadastral and land registry databases and information systems.

✓ Start gradual collection of land and property attributes essential for the development of a mass valuation system in the future.

✓ Formalize remaining non-formal lands and allocate resources to the Survey Department to survey informal lands.

Key findings: Land and property valuation infrastructure...

➡ **Current land and property valuation infrastructure is institutionally fragmented and lacks robustness.**

  ✓ Distinct responsibilities to different institutions for conducting valuation processes, with minimal inter-agency collaboration

  ✓ Lacks a unified and widely accepted valuation standard

  ✓ A limited number of qualified valuers

➡ **Need of capacity building programs**

  ✓ Insufficient education, research, and training opportunities

  ✓ No specialized course

  ✓ The valuation profession is not adequately regulated

Key findings: Land and property valuation infrastructure

➡ **Need for an ICT-driven land and property valuation system that can be built on top of NELIS and LRIMS**

✓ An ICT-driven real-time sharing and reporting system of real property prices and transactions is needed.

✓ Need to incrementally collect pertinent land and property attributes for valuation purposes

✓ Need to adopt GIS based Land valuation

Recommendations: Land and property valuation infrastructure

✓ Initiate the development of a comprehensive Property Valuation Act

✓ Standardize the land and property values as determined by municipal committees

✓ In the absence of legislation, urgently strengthen inter-agency coordination and initiate policy dialogues with relevant stakeholders

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✓ Commence a comprehensive capacity needs assessment study

Key findings: Land and property taxation

Types of taxes	Involved Institution	Taxes on property	Valuation methods
Property transfer	LROs & LRROs	3%- 5.3% of minimum land value or the declared value in Bagmati Province.	Minimum land valuation or the declared value whichever is higher is paid by buyer .
Capital gain	LRO & LRROS	5% of capital gains: Property owning for 5 years or more and 7.5% for less than 5 years	The difference of value when property is purchased and sold (capital gains) .
Land and housing rental	Metropolis,sub metropolis, municipality & rural municipality	**House Rental tax:** 7% in Bharatpur Metropolitan City & 10% in Kathmandu Metropolitan City . **Land rental tax:** 3%-5% based on agriculture and nonagricultural use.	Declared rental value or rental value as reflected in agreement between the property owner and tenant.
Property tax	Metropolis,sub metropolis, municipality & rural municipality	0.01% of first Rs 100,00,000 capitalised value of property then up to 0.6% for each increment of Rs 100, 000,000.	Rate per ana for land . Rate per sq. feet for building with or without depreciation on building cost.
Land tax	Metropolis, sub metropolis municipality & rural municipality	Rate per ana for various category of land	Rate per ana. Local governments G Economic Act.

Key findings: Land and property taxation

➡ **Land and property taxation presents a considerable untapped potential that, if harnessed effectively, could substantially boost the country's economy**

   ✓ The real estate sector is already contributing approximately 9% of the national GDP

   ✓ An ineffective valuation system and inadequate tax collection, enforcement, and minimal penalties contributes to the relatively low levels of taxes

   ✓ Addressing the challenges and modernizing the property tax system could unlock the substantial economic potential

Recommendations: Land and property taxation

➡ **Reform the land and property taxation system**

   ✓ Reassess the minimum valuation approach towards transitioning to a more reliable and market-based valuation

   ✓ Ensure that tax exemptions and incentives are properly implemented and not abused.

➡ **Implement effective tax administration**

   ✓ Raise awareness of tax exemptions and incentives for women

   ✓ Introduce regulatory and procedural enhancements in tax enforcement, monitoring, and collection.

   ✓ Foster trust in taxation system by addressing issues related to tax evasion

Key finding : Compulsory land acquisition and valuation

➡ **The 1977 Land Acquisition Act has become outdated and requires a comprehensive revision.**

  ✓ Revise to balance the government's requirements for land acquisition and safeguard private property rights.

  ✓ The Land Use Policy/Act and related regulations have a bearing on land and property valuation processes.

  ✓ The land values on land acquisition projects normally fall significantly below the actual market values

Recommendations: Compulsory land acquisition and valuation

➡ **Through inclusive and participatory consultations, revise the 1977 LAA comprehensively with the following considerations**

  ✓ Adopt a market-based land valuation approach in the determination of compensation

  ✓ Develop and implement guidelines and standards as per international agreements and practices

➡ **Ensure broader and better engagement with stakeholders.**

  ✓ Allocate sufficient resources for awareness campaigns and consultations

  ✓ Establish a dedicated land dispute institution (like a Land Tribunal) for an efficient and transparent mechanism

Priority actions

➡ Valuation legislation

➡ Valuation standards

➡ Institutional arrangement to implement recommendations

➡ Use of digital technologies for valuation and taxation

➡ In-depth studies on property taxation, tax administration/collection

Thank you!