

Policy Brief #1@CDPA

# Demographic and Geographic Factors Influencing Capital Gains in Nepalese Secondary Market



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The policy brief is the product of Public Institution and Governance Lab (PIGL) program which is organized by Central Department of Public Administration on 29<sup>th</sup> Baishkash, 2082. The research paper was presented by Dr. Maharaj Koirala, a Policy Expert.

Expert Team:

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## Introduction

This brief summarizes key findings from recent research analyzing how demographic and geographic variables affect capital gains from share disposals in Nepal's secondary stock market. Understanding these factors can inform policymakers, regulators, and market participants to promote equitable growth and targeted interventions.

### Hypotheses

H<sub>0</sub> 1: Male, female and share trading

companies have no differences in capital gains from disposal of shares.

H<sub>0</sub> 2: Brahmin, Chhetri, Dalit,

Janajati, Madheshi, and Legal entities have no differences in capital gains from disposal of shares.

H<sub>0</sub> 3: Share traders of Koshi,

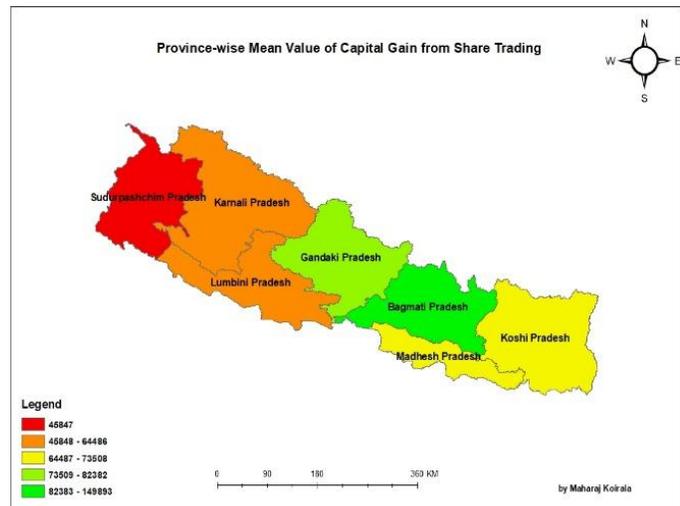
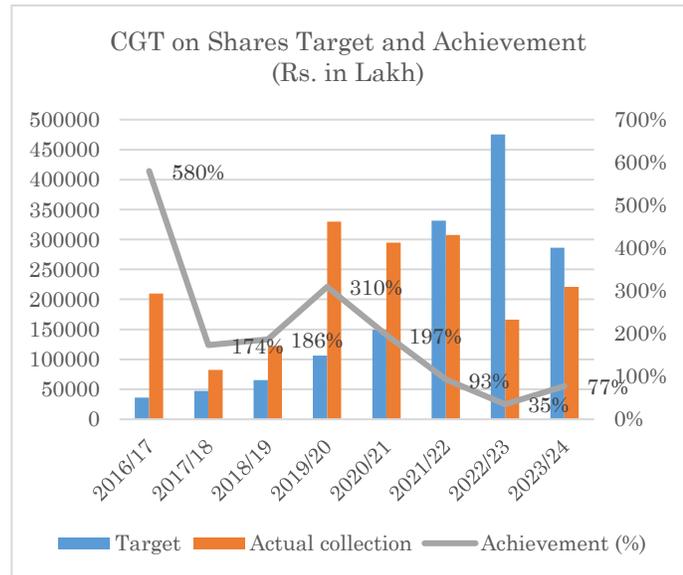
Madhesh, Bagmati, Gandaki, Lumbini, Karnali and Sudurpaschim provinces have no differences in capital gains from disposal of shares.

H<sub>0</sub> 4: There is no difference in

capital gain from share trading in terms of volume of transaction at a time.

H<sub>0</sub> 5: The capital gains from share

trading are equal between PAN holder and PAN non-holder.



Dr. Maharaj Koirala delivered his presentation. His analysis employed ANOVA, t-tests, and Games-Howell post-hoc statistical tools to explore disparities and policy blind spots in capital gains taxation under NEPSE. He reviewed the current capital gains tax policies in Nepal, contrasting them with demographic realities to argue for more equitable and inclusive taxation strategies. In response, Dr. Paudel raised questions about gender equity, the burden on small investors, and the appropriateness of the statistical framework in relation to the research objectives.

## Discussion in the PIGL

To deepen understanding and engage the audience, a simulation role-play session was conducted with participants enacting the roles of shareholders, stockbrokers, government officials, citizens, and media persons. Shareholders highlighted issues of tax proportionality, gender and age-based



disparities, and market unpredictability. Stockbrokers expressed concern about the technicalities of CGT calculations, SEBON's fees, and low investor literacy. Government officials advocated for inclusivity in tax policies, especially for historically marginalized groups such as Dalits. Citizens focused on the need for equitable benefits from capital markets and regional disparities in investment outcomes. Media persons emphasized the importance of transparent communication, fair regulation, and inclusive market narratives.



The expert opinion segment brought significant insights. Mr. Sanjay Ghimire commended the growing participation of female investors, noting their nearly 33% representation in the market. He recommended recalibrating taxation and public awareness strategies to address literacy gaps and forecast accuracy. Dr. Jitendra Dangol offered a critical perspective, describing Nepal's stock market policies as paralyzed and investor forums as ineffective. He suggested a behavioral approach based on prospect theory to differentiate between informed and uninformed investors, and called for realistic policy frameworks. Dr. Dangol also recommended the adoption of differentiated tax models and the introduction of day trading to boost capital gains tax collection.

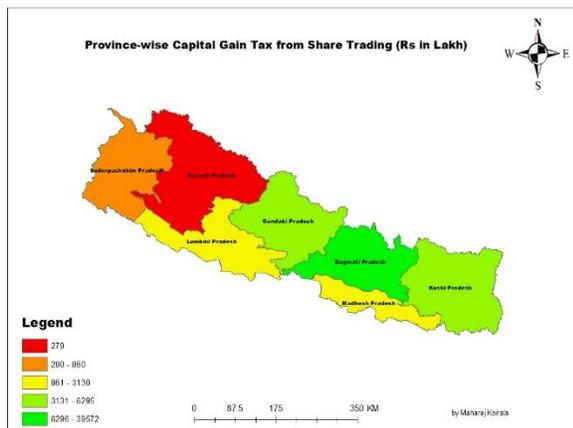
## Key Findings

**Gender Disparities:** Female traders realize significantly lower capital gains compared to male traders and investment companies, who earn substantially higher gains.

**Institutional Advantage:** Investment companies outperform individual traders, capturing larger capital gains.



**Caste and Ethnicity:** Madheshi traders achieve the highest capital gains, while Dalit traders earn the least and pay corresponding taxes. Brahmin and Janajati traders' gains are comparable, though Janajati figures may be inflated due to inclusion of high earners like the Newar community.



**Geographical Variations:** Traders based in Bagmati province generate the highest capital gains; those in Sudurpaschim province earn the least. Other provinces show similar levels of gains.

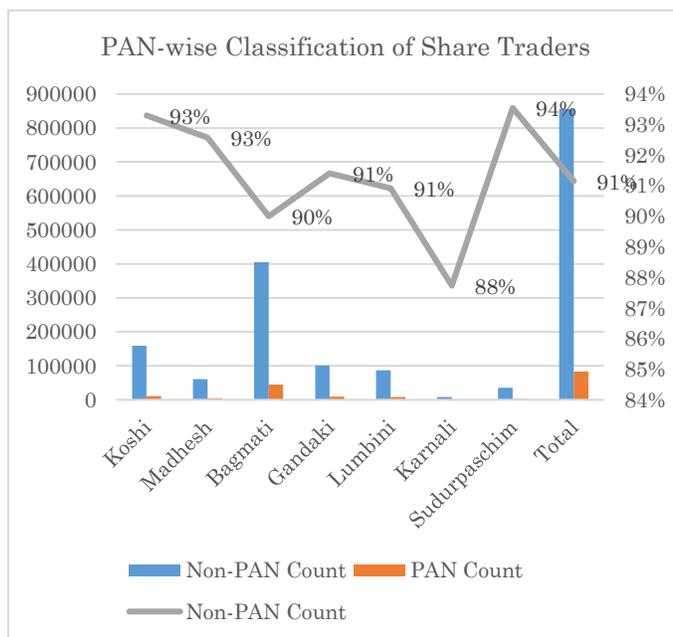
**Transaction Size:** Small transactions (fewer than 50 shares) are associated with higher capital gains

and tax contributions.

**Taxpayer Status:** Registered taxpayers with a PAN number report higher capital gains than non-PAN holders.

### Policy Recommendations

- Promote Gender Equity:** Implement programs and policies to support female traders, including financial literacy and access to trading platforms.
- Enhance Market Participation of Underrepresented Groups:** Encourage participation from marginalized castes and ethnic groups through targeted outreach and education.
- Facilitate Provincial Development:** Support traders in underperforming provinces, especially Sudurpaschim, to balance regional disparities.
- Simplify Tax Compliance:** Strengthen awareness and ease of tax registration (PAN) to improve revenue collection and transparency.
- Monitor Transaction Patterns:** Review the impact of small transaction volumes on market efficiency and tax collection, ensuring fair practices.



### Conclusion

Addressing demographic and regional disparities in capital gains can foster a more inclusive and equitable stock market environment in Nepal. Policymakers should consider targeted interventions to support marginalized groups, promote regional balance, and enhance compliance for sustainable market development.