Impact of Government Revenue on to the Economic Growth of Nepal: A Case Study of Last Five Years

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Abstract

Economies with large public sectors grow slowly because of large tax wedges but a lack of growth-enhancing government initiatives may stymie growth in countries with very small governments. Governments need to perform various functions in the field of political, social and economic activities to maximize social and economic welfare. Government revenue impacts economic growth through meeting the various governmental needs. Though all taxes have disincentive effects, taxes that reduce incentives to invest in human or physical capital and innovation are particularly damaging. This study was therefore poised to empirically examine the impact of government revenues and economic growth in Nepal of last five years for the period between FY 2070/71 and FY 2074/75 by employing Economic Growth (EGR) as the dependent variable and Direct Tax Revenues (DTX), Indirect Tax Revenues (ITX) and Non-Tax Revenue (NTX) as the independent variables. The study adopted a mixed approach for the research. The study used secondary data collected from the annual reports published by Inland Revenue Department of Nepal (IRD), Ministry of Finance and World Bank reports. The study also conducted interviews with tax experts and government officials to get further detail knowledge about impact of different types of government revenue on economic growth of Nepal. Collected data was presented using tables and figures. The collected data were analyzed through correlation analysis and regression analysis. The study concludes that there is positive relationship between different types of government revenues and the economic growth. However, indirect tax revenue and non-tax revenue positively significantly impact economic growth while impact of direct tax revenue on economic growth is insignificant. Regarding economic growth, the study concludes that there has been an increase in the economic growth in Nepal over the years. However, the study concludes that the rate of economic has been gradual.

Keywords: Government Revenue, Economic Growth, Indirect Tax, Direct Tax, Non-Tax, GDP, Ability to Pay Theory

1 INTRODUCTION

Economic growth is a transitional process leading to improvements in the quality of life or to gradual, well-ordered socio-economic change (Macek, 2014). South-east Asian countries have, however, been trying to resolve major economic issues still trapped in poverty, lack of job opportunities, unstable governments, discrimination against gender and racism. In addition, the rapid growth of the population, which is beyond resource capacity, has made economic growth difficult to achieve with adequate food, clothing, housing, and safety.

It is true that there are profound differences between countries in terms of population, level of wealth, resource supply, cultural aspects, and differences in the scope and capability of the public sector (Schmidt & Wigerstedt, 2019). Countries might have low or high taxes, large public sector or smaller one. Regardless of disparities, every government aims to internalize the externalities, fixed the existing deficiencies and direct nation towards growth (Schmidt & Wigerstedt, 2019). The government requires different resources such as manpower, money, materials, and machinery to carry out development activities and is financed by taxing its citizens.

The income earned by the government to finance its operation and invest in infrastructure development, are also known to be government revenues. Government revenues are primarily categorized into Direct Tax (DTX), Indirect Tax (ITX) and Non-Tax (NTX) revenue. The government best utilizes the collected revenues in various functions like politics, society, and economics in order to promote the social and economic welfare of a nation (Abomaye-Nimenibo et al., 2018). The

government of Nepal has engaged in various economic development activities with aims to uplift the living conditions of its citizens. The collection of revenues from different sources and its efficient mobilization to increase a nation's economic growth is a basic key feature of a government (Bâzgan, 2018).

Tax revenue contributes around 80% share in total government revenue of Nepal and is considered as the major source of income. It has made mandatory for everyone to contribute tax to the government. Collected tax is then best utilized and spends in development activities and again provides common benefits in return for everyone rather than just benefiting only the taxpayers (Bâzgan, 2018). Government usually collects taxes either directly from the taxpayers or indirectly through manufacturers or retailers on behalf of the final consumers of goods and services. DTX are directly paid by the taxpayers (individual or organization) to the taxing entity and such tax burden cannot be transferred to any other. It includes income tax, property tax, corporate income tax, and so on. ITX are eventually charged at the time of buying products and services by the end users. Intermediate entity (such as a retailer, supplier, or producer) collects the tax from consumers and paid to the government on behalf of consumers. The government collects indirect taxes in the form of VAT, custom and excise duties, service tax, and so on. Beside tax revenues, the government also collects funds in the form of dividends, public utilities, fines and penalties, other fees, and charges and is termed as non-tax revenues.

1.1Background of Study

Nepal is an underdeveloped nation with an emphasis on agriculture. The economic status of Nepal is very weak; among 191 nations, it was ranked 31st poorest (Ventura, 2019). The last report of Nepal's GDP per capita income in July 2019 was USD 1034.118. There are many reasons that contribute to economic underdevelopment such as geography, the scarcity of capital, weak infrastructure, lack of direct ocean access due to landlocked with two giants China and India, high levels of corruption, and lack of development-friendly policies.

Developing countries like Nepal, with low per capita income, the government relies heavily on indirect tax revenues rather than direct tax revenues. There is a significantly small percentage of income tax in direct tax revenues. In the initial stage of economic development, ITX play a significant role. But with the gradual growth in the economy, direct taxation plays a vital role and is a very important factor for long-term growth (Gupta, 2015).

It has been evidenced that there is an inverse relationship between large sector economies and the growth which is mainly caused due to high tax wedges, on the other hand, small sectors having inverse relationship with growth due to lack of development-friendly policies (Barker, et al., 2008). It is important to understand that not all government revenues respond to the economy in a same way rather there is a unique relation between different kinds of taxes levied and economic growth (Johansson, et al., 2008). Therefore, it is really important to maintain the optimal tax structure and the right balance between government revenue sources for an efficient economy. The government is responsible for the efficient revenue collection and utilization of the collected revenues in education, health services, development infrastructures, employment generation programs (Barrios & Schaechter, 2008).

However, there are persistent disagreements over efficiency of government revenue collection system, and extensive research in both national and international arena have been carried out on the different types of government spending to ascertain whether they promote economic growth (Abomaye-Nimenibo et al., 2018). In the Nepalese economy, therefore, the pattern and tendency of various types of government revenues and their impact on the economy can be found.

1.2Problem Statement

Today Nepal, like the developing countries is facing several challenges while optimizing tax structure, collecting revenues, and mobilizing such revenues in a way that maximize the economic growth of the nation. The key challenge is to strike the right balance between market- and investment-friendly tax regimes while generation of sufficient service revenues that will make the economy attractive to investors. (Abomaye-Nimenibo et al., 2018).

The tax system in Nepal is not fully tapped and its role is not felt because of the poor governance in fostering economic and social activities and economic growth. Furthermore, the Nepalese tax attitude is worrying as most of the citizens and corporate citizens prefer not to pay taxes (K.C., 2018). The economy, therefore, continues to lose enormous amounts of revenues because of high tax evasion practices. If a government can control tax evasions and collect all lost revenues then it may be able to change the country's fortune. In developed countries such as Nepal this issue persisted too long and desperately needs attention and a solution. The tax collection costs in Nepal are excessive to the extent where the expense will soon exceed the profit of the operation if unchecked (K.C., 2018).

Empirically, determining the impact of taxation on EGR of Nepal is a research study conducted at the right moment because it is important to examine the impact of DTX, ITX, and NTX on to the economic growth. This research study, therefore, examines the impact of government revenue on Nepal's EGR, analyzing the tax structure data and trend of economic growth of Nepal for last five years from FY 2070/71 to FY 2074/75, thus revealing the critical challenges which need to be overcome. Therefore, the present tax performance and its impact on the Nepal economy must be further studied.

- Challenge in finding the right balance between business and investment friendly tax systems.
- Unwillingness to pay tax and tax evasions.
- Excessive tax collection cost.
- Tax system is not fully tapped.

1.3Propose of the Study

This research aims primarily to examine the effect of various kinds of government revenue on Nepal's economic growth. As there are relatively few academic publications on the same topic, the study intends to publish this paper on government websites to help policymakers develop concrete strategies referencing this report.

1.4Objectives

The main objectives of this research are as follows:

- To explore the impact of direct tax on Nepalese economic growth.
- To examine the impact of indirect tax on economic growth of Nepal.
- To discover the impact of non-tax revenue on to the Nepal economic growth.
- To analyze the pattern of government revenue and economic growth of Nepal.

1.5Research Questions

The research questions for the study are as follows:

- Does direct tax impact on to the economic growth of Nepal?
- How does the indirect tax impact on the economic growth of Nepal?
- Does non-tax revenue impact on to the economic growth?
- What political steps must be taken in the context of the Nepalese economy to boost the government tax system?

1.6Research Hypothesis

More precisely, the study paper focuses on the effect of government revenues on Nepal's EGR, and hence the following hypotheses are presumed:

Hypothesis 1

Null Hypothesis (H0): DTX has no significant impact on EGR

Alternative Hypothesis (H1): DTX has significant impact on EGR

Hypothesis 2

Null Hypothesis (H0): ITX has no significant impact on EGR

Alternative Hypothesis (H1): ITX has significant impact on EGR

Hypothesis 3

Null Hypothesis (H0): NTX has no significant impact on EGR

Alternative Hypothesis (H1): NTX has significant impact on EGR

1.7Limitations

Every research is limited to a certain degree and there is no exception to the study. Some of the limitations of the study are as follows:

- This study focuses only on impact of government revenue on Nepal's economic growth but totally ignores other factors that can significantly affect the economic growth.
- All the data related to government revenue and economic growth is collected from secondary source. In the event that the published data were inaccurate, the entire research may have misleading conclusions. The key drawback of this analysis therefore is that we must totally rely on statistical data published by the concerned authorities.

2 LITERATURE REVIEW

There are significant number of studies have been undertaken to explore the impact of government revenue on to the EGR. The results of these previous researches, however, seem to suggest conflicting findings. Some study findings have shown that increased tax collection have a positive effect on economic growth, which improves the economic efficiency while some other studies claims that increased tax collection have adverse impact over economic growth. The theory of economic growth also accepts the fact that levying high tax rates inevitably decrease demand and production, which further reduces the economic growth of the country.

Taxation impacts economic growth by restricting the incentives for the emerging companies and market prospects, distorting investment decisions, innovation, reducing employment and skills for the workforce (Tax Revenue). In general, the output of nation's economy is calculated in terms of GDP and is focused on its economic resources such as labor skill, financial resources, capital goods and technology (Abomaye-Nimenibo et al., 2018).

The study investigates the theoretical analysis and demonstrates which shows how tax income affects economy and empirical evidence to estimate these results, on the effect of government revenue on the EGR. This research has applied inferential analysis.

2.1Concept of Economic Growth

According to (Al-tarawneh et al., 2020) EGR is defined as an increase in a nation's capacity to produce goods and services over a period of time. EGR is only concerns with the sum of products and services manufactured within the boundary of a country throughout a particular time. It measures the intensity of growth in monetary terms and does not consider other development factors (Bourne et al., 2016). GDP is widely used to assess a nation's economic wellbeing and standard of the living of its citizens. GNP is often seen as an option to GDP which encompasses all the production of the inhabitants of a country (Bourne et al., 2016). For example, if a China-owned company operates its manufacturing business in Nepal, the production of this business will be included in Nepal's GDP, but China's GNP. GDP doesn't include all the productive activity. Unpaid jobs (such as voluntary work at home) and black-market practices, for instance, are not listed, because they are impossible to quantify and evaluate precisely. For an instance, if carpenter makes furniture for his client for money then it will contribute to country's GDP, but if the same furniture is for his house purpose then it doesn't contribute to GDP.

There can be either positive or negative growth in an economy. Generally negative growth is caused due to economic recession and crisis which shrinks down the economy (Chigbu et al., 2012). They argue that for every organization to increase its competitiveness, growth, and progress, the financial system is very critical. Well-functioning economies and industries accelerate technical advancement, development of resources and thereby economic growth. They also argue that efficient financial markets promote investment by reducing the transaction cost (Chigbu et al., 2012). It also facilitates capital allocation to the project with highest returns and thus raises the economic growth rates.

2.2Concept of Government Revenue

In simple words, government revenue is country's income for funding government activities. A government activity includes generating and utilizing the same funds to provide social services, security and infrastructural facilities to all the residents of the nation (Bourne et al., 2016). Tax and

non-tax income are the main sources of revenue for every country.

Tax is obliged to all the people and businesses residing within the country boundary, the government spend such collected tax are spent on social and public welfare and facilitates different services to the general public in return (Abomaye-Nimenibo et al., 2018).Tax system is also intended to address different social and economic issues exist in a society and also to promote equity. Taxes also impact household decision to save and supply the labor as well as influence the firm's decision in production, job creation, business expansion, investment and innovation (S. & P., 2009). It is not only the amount of taxation that applies to these decisions but also how various tax instruments are structured and implemented to raise revenues. Hence "Taxation should not be like killing the goose that lays golden eggs" (S. & P., 2009).

3 RESEARCH DESIGN AND METHODOLOGY

3.1Research Approach

This dissertation applies a mixed research approach i.e. using both quantitative and qualitative research strategies (Kautish et al, 2008, 2012, 2013, 2020). Nepal is facing several challenges for maximizing the government revenues and at the same time meeting development objectives. The biggest challenge is to align enterprise with investment-friendly tax regimes. Due to poor governance and tax attitudes (unwillingness to pay and tax evasion) of Nepalese citizens, the tax system is not fully tapped as a result the economy loses an enormous amount of revenues that could have support economic growth of Nepal.

The government revenues and economic growth data are derived mainly from secondary sources, and which are quantitative in nature.

Whereas, citizens' attitudes towards the tax system and the government's economic strategies are not quantifiable but are qualitative. Therefore, a mixed approach is found to be most applicable.

3.2Research Design

This research utilizes both the quantitative and qualitative research strategies to find the relationship between different independent variables (government revenues) and the dependent variable (economic growth) through calculation as well as interpretation. This study analyzes the secondary quantitative data to find the impact of government revenue on economic growth and the study also looks after the tax experts' opinions on the same. Thus, applying the mixed approach, the study tries to verify the research results with the expert's views and opinions.

3.2.1 Conceptual Framework

From the above diagram we can clearly identify the independent and dependent variables of the study. Examining the impact of each of the independent variables on the dependent variable fulfills objectives of this study.

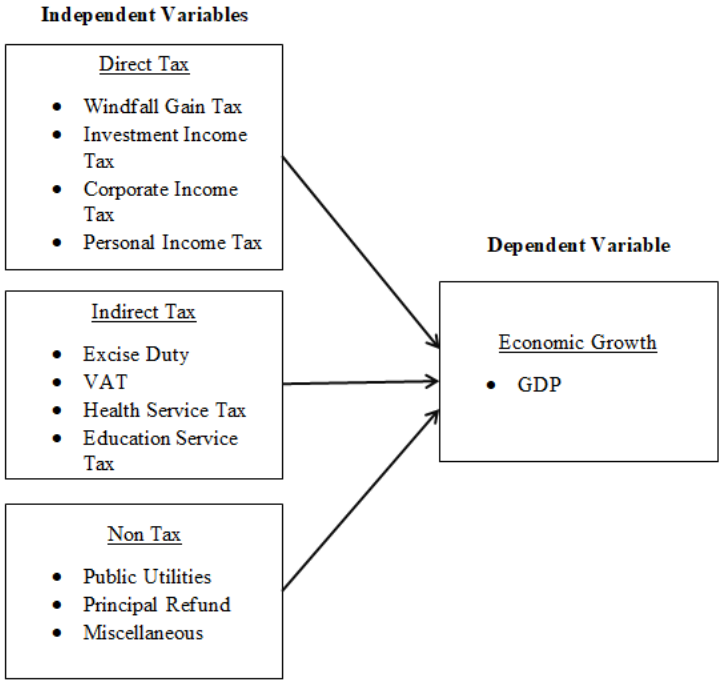

Figure 1 Conceptual Framework

3.3Research Methods

This research implements both primary and secondary research methods. Primary research is often undertaken to deal with a particular problem that requires in-depth analysis. The key benefit of primary research is pinpointed to a specific issue and focused to obtain the solution. On the other hand, secondary research utilizes existing data to review and gather new evidence to enhance the overall effectiveness of the research. Conducting secondary research is more cost effective in compare to primary research, which makes it a common alternative for a substantial number of businesses.

In this study, primary research is qualitative where a set of structured questions are designed and conduct an interview with government officials and the tax experts. Secondary analysis, on the other hand, is both of a qualitative and quantitative type. The quantitative data related to revenue collection and economic growth rate for this study were carefully examined and extract data from various governments' financial reports and the data available on the government agencies' official websites. Whereas, qualitative data (from secondary sources) are gathered through different journals and articles related to the topic which were previously studied in an international arena.

3.4Data Sources

3.4.1 Interviews

Interviews are qualitative data gathering analysis tools which have been a popular methodology for years. It is an interactive conversation mechanism of dialogs and conversations between the interviewer and the interviewee. In interview there are usually open-ended questions which can be conversed face-to-face or by using different communication media. Due to the open-ended questions and flexible format, it helps to contribute in-depth explanations and perceptions of the interviewee.

3.4.2 Data available on the internet

The internet is one of the easiest and common places to collect secondary data. Readily available

data on the site can be conveniently accessed and download free of cost or sometime may have to pay a negligible amount. One can find huge information on the related topic but has to pick an authentic and trusted website to collect the information.

3.4.3 Government agencies

Secondary data can be collected from the government agencies and its functional bodies. These agencies are considered to be an authentic and trustworthy source for the secondary data.

3.5Data Collection Method

3.5.1 Interviews

For this research set of structured interview questions were designed to discuss with the tax experts and officials of tax authority on how government revenue of Nepal impacts its EGR. All the interviewees were informed in advance about the purpose of this study and conducted interviews over the phone/Skype depending on the preference of the interviewee. Face to face interview could be the best option but due to the pandemic situation of COVID-19 whole state was in lockdown, which makes impossible to meet interviewees personally. Such situation leads to conduct all the interviews over phones and other media. Those conversations were then recorded and transcribed. The full scripts of the interview's questions are available in the Appendices.

3.5.2 Government Agencies Reports

The best source for secondary data regarding the revenue collection and economic growth is the government agencies and its functional bodies. This research carefully examined and extracts the needed data for a study from the financial reports published by Ministry of Finance (MOF) of Nepal, Inland Revenue Department (IRD) of Nepal and Nepal Rastra Bank (NRB). These financial reports are collected from their official websites.

This research collects the secondary data (i.e. revenue collection and economic growth rate) data for the last five years from FY 2070/71 to FY 2074/75.

Table 1 Nepal's Fiscal Year and English Calendar Year Mapping

Fiscal Year (Nepali)	2070/71	2071/72	2072/73	2073/74	2074/75
English Calendar Year	2013/14	2014/15	2015/16	2016/17	2017/18

3.6Method of Data Analysis

The study will be using the secondary data from FY 2070/71 to FY 2074/75 where all the government revenue related data for last five years were collected from the annual reports published by IRD of Nepal and EGR related data were gathered from the report published in World Bank website. The obtained data were then filtered and fitted in SPSS software for data analysis and the results were then presented in tabular format. Revenue data values (collected from the IRD annual reports) are in NPR currency, but the economic growth data (obtained from world bank for the period of 5 years from 2014 to 2018) values are given in USD currency so, such economic growth values are converted into NPR currency by taking the exchange rate of that particular years.

This research is focused on secondary evidence, and descriptive interpretation is not sufficient to achieve the aims of the study. Therefore, research's method for data analysis is based on inferential analysis. However, both the independent variables and dependent variable are scale variable, and to find the relationship between these variables the research has implemented inferential analysis tools and they are correlation and regression analysis.

3.6.1 Correlation

Correlation is one of the most commonly used statistical measurements to find the relationship between two variables and is applied in the study to find the impact of government revenues (i.e. independent variables) on to the economic growth (i.e. dependent variable) of Nepal. The spectrum of correlation ranges between -1.0 to 1.0. The value of correlation greater than 0 (i.e. $V > 0$) signifies positive correlation and value of exactly 1 reveal that the relationship between variables is perfectly positive. Positive relationship is when both variables move in same direction. When the value of

correlation is lower than 0 (i.e. V < 0), it signifies negative correlation and if value is exactly -1, then it signifies perfect negative relationship between variables i.e. the variables shift inversely. And if the value is 0 then there is no relationship between variables.

To fulfill the research objectives as mentioned above in chapter 1, this research analyzes the correlation in three different sections and are (i) Correlation between DTX and EGR, (ii) Correlation between ITX and EGR and (iii) Correlation between NTX and EGR.

3.6.2 Regression Analysis

In order to discover the effect of independent variables (DTX, ITX, and NTX) on the dependent variable (EGR), this study has implemented linear regression. Despite being independent from each other, all independent variables are expected to have a linear effect on the dependent variables. Thus, to explore the impact of each type of government revenues on economic growth, regression analysis is performed separately. To evaluate the effect of government revenue on Nepal's economic development, three separate models have been developed and are as follows:

Model 1

In Model 1 equation is estimated as below to explore the impact of DTX on EGR.

$Ln\ EGR = \alpha + \beta_1\ LnDTX + \varepsilon$

Where, DTX is the sum of (Windfall Gain Tax, CIT, PIT, Investment Income Tax, and Others) and ε is Error.

Model 2

In Model 2 equation is estimated as below to explore the impact of ITX on EGR.

$Ln\ EGR = \alpha + \beta_1\ LnITX + \varepsilon$

Where, ITX is the sum of (Custom Duty, Excise Duty, Sales/VAT, Hospital Service Tax and Education Service Tax) and ε is Error.

Model 3

In Model 3 equation is estimated as below to discover the impact of NTX on EGR.

$Ln\ EGR = \alpha + \beta_1 LnNTX + \varepsilon$

Where, NTX is the sum of (Principal Refund, Public Utilities and Miscellaneous) and ε is Error.

4 DATA ANALYSIS AND FINDINGS OF RESEARCH

4.1Collected Data Structure and Pattern

This section deals with the government revenue and economic growth-related data structure and its pattern in last five years i.e. from FY 2070/71 to FY 2074/75 collected from secondary sources. To ensure the genuine and valid data, all the data is collected from annual reports published by MOF Nepal and the reports by World Bank. The study is focused only on revenue and economic growth-related data but ignores all other factors.

Government revenue structure for last five year

Government revenue of a nation is categorized in DTX, ITX and NTX. Where each of the categories is also consists of different sub headings according to the revenue nature. The government revenue of Nepal for last five years is presented in a tabular format as shown below.

Table 2 Government Revenue Data (Source: IRD Annual Report 2074/75)

					In Billions (NPR)
Revenue Heading	**2070/71 2013/14**	**2071/72 2014/15**	**2072/73 2015/16**	**2073/74 2016/17**	**074/75 2017/18**
Direct Tax Revenue					
Income Tax on Windfall gain	0.06	0.10	0.09	0.12	0.16
Total Taxes on Investment Income	9.89	10.99	22.64	31.00	26.66
Total Corporate Income Tax (CIT)	39.28	51.27	60.93	78.85	86.52
Total Personal Income Tax	20.69	25.55	32.93	38.58	46.44

Other Income	0.35	0.59	0.51	0.73	1.14
Total Direct Tax Revenue	**70.27**	**88.50**	**117.10**	**149.28**	**160.92**
Indirect Tax Revenue					
Excise (Internal)	27.40	31.05	36.19	47.22	60.48
VAT(Internal)	34.39	39.56	49.82	61.12	76.22
VAT (IMPORT)	66.57	78.94	77.94	105.34	130.64
Health Service Tax	0.44	0.56	0.72	0.86	1.15
Education Service Fee	0.43	0.46	0.57	0.74	0.91
Total Indirect Tax Revenue	**129.23**	**150.57**	**165.24**	**215.28**	**269.40**
Non-Tax Revenue					
Non-Tax Revenue	41.73	49.90	57.37	61.69	72.74
Total Non-Tax Revenue	**41.73**	**49.90**	**57.37**	**61.69**	**72.74**
Total Government Revenue	**241.23**	**288.97**	**339.71**	**426.25**	**503.06**
Direct Tax Revenue %	**29.13**	**30.63**	**34.47**	**35.02**	**31.99**
Indirect Tax Revenue %	**53.57**	**52.11**	**48.64**	**50.51**	**53.55**
Non-Tax Revenue %	**17.30**	**17.27**	**16.89**	**14.47**	**14.46**

The above table indicates that in composition of total revenue, the tax revenue has dominant role than of non-tax revenue. It is evidenced from the last five years data that direct tax revenue contributes approximately 33% and about 52% by indirect tax revenue and remaining 15% is contributed by non-tax revenue. If we looked at the data, it shows clearly that from FY 2070/71 to FY 2072/73 the indirect tax revenue is in decreasing trend while direct tax revenue is rising but from FY 2073/74 the indirect tax revenue raises and direct tax revenue has dropped down. And non-tax revenue is continuously decreasing year after year. It indicates that tax revenue is more dominant than non-tax revenue in Nepal's economy where indirect tax revenue contributes in large to the government revenue (Inland Revenue Department of Nepal, 2019).

Such revenue data structure of last five years is also presented in a graphical format utilizing bar diagram for easy reading and understanding and is as below.

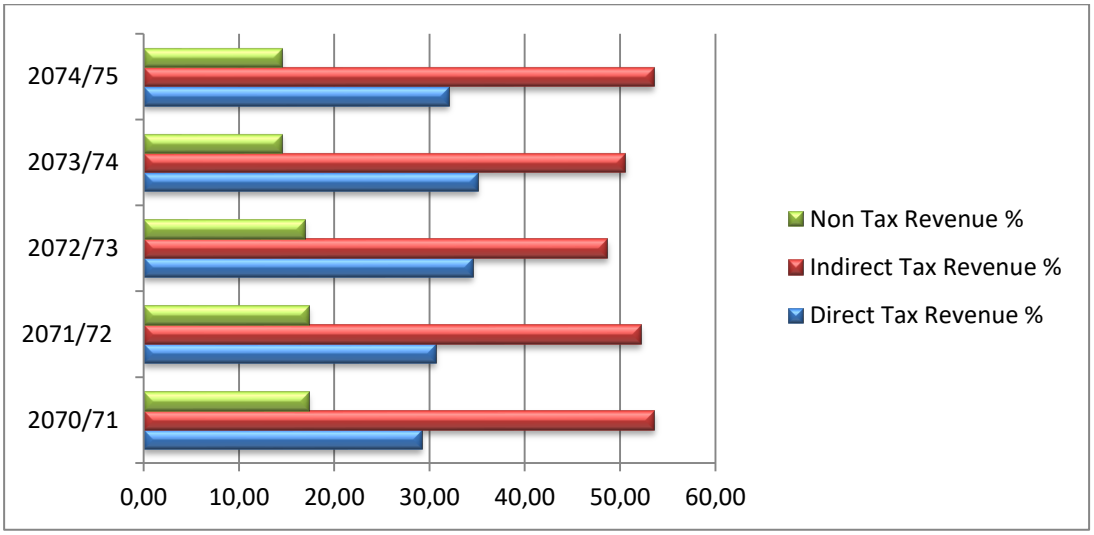

Figure 2 Government Revenue Data Chart

Economic growth for last five years

The economic growth of Nepal for last five years is gathered from the report published by the World Bank and is presented in the tabular format shown as below.

Table 3 Economic Growth Data (Source: World Bank Data)

In Billions					
Particulars	**2070/71**	**2071/72**	**2072/73**	**2073/74**	**2074/75**
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Economic Growth (in USD)	20.00	21.41	21.19	25.18	29.17
USD to NPR exchange rate	101.00	106.45	108.54	102.11	112.23
Economic Growth (in NPR)	2020.00	2279.09	2299.96	2571.13	3273.75

The revenue related data from MOF annual reports are in Nepalese Rupees (NPR) while economic growth data are obtained in USD. To examine the impact of government revenue on economic growth this study tries to bring both data in same currency thus converts the economic growth data into NPR currency by taking the exchange rate of the subsequent years and is presented in the above table. It has been evidenced that the economic growth of Nepal is in increasing trend. Such data is also presented in a graphical format as below.

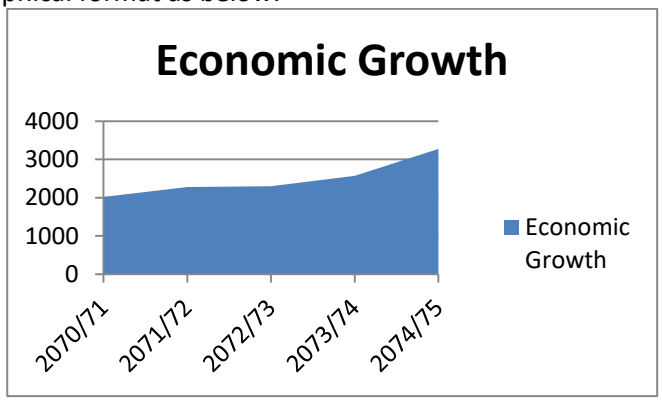

Figure 3 Economic Growth Data Chart

5 Discussion, Recommendation and Conclusion

The discussions and recommendation on basis of the questions that have been set in the first chapter is as following.

5.1Summary of Research

This research focuses on investigating the effect of government revenue on Nepal's economic development for last five years from FY 2070/71 to 2074/75. To better understand the impact, government revenue is further categorized into direct tax revenue, indirect tax revenue, and non-tax revenue. Research objectives are set and examine the impact of each type of government revenue on economic growth.

This research has reviewed multiple kinds of literature in chapter two, a literature review of research that is related to the same topic performed by different researchers in the national and international arena. The literature review was primarily concentrated on exploring how the EGR is influence by various kinds of government revenues. The results of these previous researches, however, seem to suggest conflicting findings. Some of the research reports have shown that government revenues have a positive impact on economic growth which improves economic efficiency while some other studies claim that increased tax collection harms economic growth. This research has reviewed different theories like Socio-Political Theory, Ability to Pay Theory and Cost of Service Theory.

The research was undertaken on five years of data on government revenue and economic growth of

Nepal. This research implements both primary and secondary research methods. Government revenue and economic growth data of the last five years are obtained from secondary sources like the annual report of MOF of Nepal and World Bank reports. Obtained data were analyzed with the help of inferential analysis tools i.e. Correlation and Regression analysis and results are presented in chapter 4. This research also has conducted few interviews with the tax experts and government officials on the same. Thus, applying the mixed approach, the study tries to verify the research results with the expert's views and opinions.

Based on the results of inferential analysis of the research for period of five years from FY 2070/71 to FY 2074/75, the major findings are as follow:

- Direct tax revenue has insignificant impact on to the economic growth of Nepal.
- Indirect tax revenue has significant impact on to the economic growth of Nepal.
- Non tax revenue has significant impact on to the economic growth of Nepal.

5.2Discussion and Interpretation of Findings

This section of the study provides the discussion and interpretations of all the findings during the study.

Research Question No 1. Does direct tax impact on to the economic growth of Nepal?

This study has reviewed different journals and articles related to the same topic and it has found most of the research results show the negative impact of direct taxes on economic growth. Many researchers have focused on CIT, according to their research, it has evidenced CIT has shown most significant impact on EGR as it discourages the investment which thereby limits the business opportunities, job creation and restricts the growth of the economy. Researchers have also argued direct tax cuts positively impact economic growth.

To address the impact of DTX on to the EGR of Nepal, this study has undertaken the correlation analysis and the regression analysis between the DTX variable and EGR. The result of Pearson's correlation analysis shows the correlation value of 0.876, which indicates that there is a strong positive relationship between these two variables. The result indicates an increase in DTX will increase in the EGR of Nepal. On the other hand regression analysis between these two variables shows a significant value of 0.51. The value of regression is greater than 0.05 (i.e. 0.051 > 0.050), which signifies there is an insignificant impact of direct tax revenue on the economic growth of Nepal. The first hypothesis accepts the null hypothesis (H0) and it can be concluded that there is an insignificant impact of DTX on to the EGR of Nepal for the period of FY 2070/71 to 2074/75.

This study has conducted interviews with tax experts to gain their views and opinions on the impact of DTX on EGR in the context of Nepal. The study found that all tax experts have the same opinions and experiences regarding the impact of direct taxes on economic growth. According to them, Nepal is a small and developing country with a low per capita income of approximately USD 1034. Imposing a huge tax on their income is not that feasible and the Nepal government cannot be dependent fully on direct tax revenue for funding to the growing expenditure like in education, health, security, and other development infrastructure.

If a government imposes high corporate tax then it discourages the investment in a country, rather those companies will invest their capital in foreign countries with a low level of corporate tax. It also discourages MNCs for FDI in a country which ultimately reduces the job opportunities and impacts negatively on the economy. On the other hand, if the government does not levy a direct tax, it would lead to high inflation in the country.

Research Question No 2. How does the indirect tax impact on the economic growth of Nepal?

Researchers of most of the literature reviewed in the study have shown the positive impact of ITX on EGR. Many researchers concluded that the government should shift the tax load from labor to consumption-based taxation that may have a beneficial impact on EGR. While some of the researchers argued that increasing ITX can result in an increase in inflation and harm public welfare.

The study has performed inferential analyses to examine the impact of ITX on the EGR of Nepal for 5 years from FY 2070/71 to FY 2074/74. The result of Pearson's correlation analysis shows the correlation value of 0.977, which indicates ITX and EGR are strongly positively correlated. The finding

indicates a positive increment in ITX will increase in the EGR of Nepal. The regression analysis between these two variables shows the significant value of 0.004. The value of regression in lower than 0.05 (i.e. 0.004 < 0.05), it signifies there is a positive significant impact of ITX on the EGR of Nepal. The second hypothesis accepts the alternative hypothesis (H1) and it can be concluded that ITX has positive significant impact on EGR of Nepal for the period of FY 2070/71 to 2074/75.

Interviews with experts have different views on the impact of ITX on EGR. According to them, unlike other developed countries, Nepal depends on indirect tax revenues. More than 50 percent of the total government revenue is covered by ITX. Since the tax base of Nepal is not that broad enough to depend on direct taxes as a result government has to depend on indirect taxes. In the future when the Nepal economy develops, the scope of indirect taxes can be gradually adjusted but for now, reducing indirect taxes can lead to budget deficits.

Some tax experts argue that indirect taxes are levied blindly on the transaction without considering the taxpayer is either rich or poor. Imposing high indirect taxes can badly impact the people living under the poverty line as they have to pay a huge proportion of their total income for consumption. The reduction of indirect taxes on the basic consumption goods consumed by the poor and imposing high taxes on the luxury goods and items that harm health and the environment will balance the indirect tax proportion on the total government revenue.

Research Question No 3. Does non-tax revenue impact on to the economic growth?

Different researchers in an international arena have argued that NTX to the government and the EGR of the nation are inextricably linked to each other. NTX contributes almost 15% share of total revenue in context of Nepal. The government controls economic activity by obtaining NTX and spending such revenue has an impact on the national economy. The literature review of the study found there is a positive impact of NTX on EGR.

The study has performed inferential analyses to examine the impact of NTX on the EGR of Nepal for 5 years from FY 2070/71 to FY 2074/74. The result of Pearson's correlation analysis shows the correlation value of 0.944, which indicates NTX and EGR are strongly positively correlated. The finding indicates a positive increment in NTX will increase in the EGR of Nepal. The regression analysis between these two variables shows the significant value of 0.016. The value of regression in lower than 0.05 (i.e. 0.016 < 0.05), it signifies EGR is significantly influenced by NTX. The third hypothesis accepts the alternative hypothesis (H1) and it can be concluded that NTX impacts EGR significantly for the period of FY 2070/71 to 2074/75.

Interviewing with tax experts, the study acknowledges there is a positive impact of NTX on EGR to some extent but in a long run government imposing huge amounts of non-tax revenue can impact private and public companies negatively. It creates pressure on companies by reducing their earnings, weakens the potential for extending production. Charging various types of fees by a different government department as a result; it hinders the capital formation, difficulties in regenerating investment capital which lead to slow economic growth.

Research Question No 4. What political steps must be taken in the context of the Nepalese economy to boost the government tax system?

There are different factors that a Nepal government needs to be implemented in order to improve the government revenue systems and they are as follow:

1. The information management system of the Nepal government needs to get an upgrade. Information regarding current taxpayers, potential new taxpayers, income tax evaders, right and detail information of house owners, non-residents that are operating a business without company registrations, etc. are need to maintain properly. Since income-related information is a matter of privacy so needs to make information management system more secure and confidential.
2. The tax base needs to be broadened and introduce a tax system to every aspect of the economy. Doing this government can collect more revenues in the coming days. It is also necessary to increase the direct tax share to the total government revenue and gradual adjustment in indirect taxes via an efficient taxation system.

5.3Conclusion

From the findings, the study concludes that there is a positive relationship between government revenue and economic growth of Nepal as all the revenue types' i.e. DTX, ITX and NTX has a positive relationship with the EGR of Nepal for the period of FY 2070/71 to FY 2074/75.

Different type of revenue responds differently to economic growth. As per the findings, the study concludes there is a positive significant impact of ITX and NTX on EGR whereas the insignificant impact of DTX on the EGR in the context of the Nepalese economy.

On the government revenue side, the study concludes that direct tax revenue is in increment trend whereas, non-tax revenue is declining every year and indirect tax revenue variation is very little in the last five years. When analyzing economic development, the study found that over the last five years the EGR in Nepal has increased. However, the study also indicates that the growth trend was modest.

5.4Recommendation

The Government should ensure the right handling of its revenues in a way that it lowers inflation levels, create job opportunities and boost country's economy. To satisfy the criteria of the 21st century, the Nepal government should restructure its tax system. The government should be careful while spending the collected revenues and ensures that it ultimately will help to grow different sectors of the economy.

The following suggestion have recommended for an efficient tax system in Nepal:

- Economic opportunities and a stable market for investment and innovation must be encouraged by means of tax revenue to boost the government's tax base.
- The government should be responsible for making the public conscious of tax-paying and avoid tax evasion. Traditional awareness-raising strategies may not currently be so effective, but the government should employ alternative forms of social media such as Facebook, Twitter, etc. for raising awareness as taxpayers these days are usually not out of social networks.
- The strategy to motivate taxpayers to pay tax willingly should include rewards and incentives rather than coercive steps. Provision for fines and penalties for tax evaders should be levied at a higher rate.
- The government should not rely on the grants and remittance largely but needs to come up with strategies and long-term planning for generating domestic revenues. Introducing new taxes, increasing tax rates, encouraging investments in public/private sectors are some examples of generating domestic revenues.

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