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Taxation System and Total Contribution Made by NTC on the Economic Growth in Nepal

- Toya Nath Bhattarai[1]

Abstract

This study observes the economic impact of tax revenue and economic growth of Nepal from fiscal year 2012/13 to 2022/23. To get the objectives, relevant time series secondary data were collected from the economic survey, websites of NTC and other sources published by the Ministry of Finance, Inland Revenue Department, Nepal Rastra Bank, World Bank, and previous works done by the scholars. The collected data has been analyzed by using the linear regression model. The result shows that NTC's total contribution to government funds and tax revenue positively affects GDP. The tax revenue trend has signified the positive trends but is needs to be more adequate to meet the government revenue of Nepal.

Key Words: Taxation System, Tax Structure, Economic Growth, Direct Taxes, Indirect Taxes, GDP, Total Contribution on Government Fund etc.

Introduction

Simply, a tax is a financial payment made to the government by a person who should pay tax. It is legally required of citizens who pay taxes to contribute to the internal revenue. As another way of putting it, it's an endless source of money. In the industrialized world, it is a substantial source of income, and it has started to play an important role in the developing world. Businesses and people must pay taxes to the government

[1] Toya Nath Bhattarai, MPhil, Senior Account Officer, Nepal Telecom
Email: ntc.tnbhattarai@gmail.com

to cover the costs associated with economic growth. The government must receive this sum by the laws and regulations governing taxes. Those who are required to pay it are not expecting any immediate advantages in the form of goods or services from the government; rather, it is a compulsory tax. Taxes are proportionate contributions from individuals and property that the state legislature imposes to fund the executive branch and meet public demands. Economic development is a term used by almost all emerging countries in the world. Therefore, achieving a high degree of financial growth, reducing pay inequities, and raising living standards are some of the cutting-edge tactics that governments in emerging nations strive for. Adhikari (2003) defined taxation as simply having to pay a particular amount to the government. It is required by law for taxpayers to make this payment to the national revenue. Taxpayers do not instantly gain anything in return for their tax payments. The government's required spending on the general welfare is funded by taxes. Its objectives are social justice and equitable economic distribution. The tax is divided into many categories based on its characteristics, composition, value, amount, volume, form, and procedure, among other things. However, indirect taxes are real.

Macek (2014) argues that economic expansion is a traditional strategy for attaining advances in living quality or well-ordered socio-economic transformation. Most tax systems were found to be highly significant and connected with a country's economic growth based on empirical study. Changes in tax rules may affect economic planning (Marsden, 1983).

Gober and Burns (1997), changes made to a single tax component could have a variety of repercussions on the economy of a country. The performance of long-term growth is negatively impacted by sudden increases in taxes or reductions in spending. Thus, the primary concern of the government is the challenge of striking a balance between proper growth and budgetary restraint, a task that requires careful consideration of tax policy.

Introduction of Nepal Telecom

A vital component of any country's development is communication, which instils in people a sense of action, skill, sensitivity, and excitement. These currently include face-to-face meetings, mail, the internet, phones, the postal service, and newspapers. Telecommunications services are a necessary means of communication in the modern world. In Nepal, "communication for development" has become a catchphrase that is now utilized by all those involved in the development of new communication services. Development telecommunication services have been accorded a key place in our country's development plans. In Nepal, telecommunication services of any kind have been available for 94 years, dating back to B.S. 1970. However, the official telecom service wasn't available till after MOHAN AKASHWANI was established in B.S. 2005.

The fundamental building blocks of national growth is communication, which fosters in individuals a sense of sensitivity, activity, enthusiasm, and skill. These include in-person meetings, mail, internet, telephone, postal service, and newspapers at the moment. In the modern world, telecommunications services are an essential form of communication. The phrase "Communication for Development" has gained popularity in Nepal and is now used by everyone working on the creation of new communication services. Our nation's development plans have given development telecommunication services a prominent position. Any type of communications service has been in operation in Nepal for 94 years, starting in B.S. 1970. However, official telecom service was only offered following the founding of MOHAN AKASHWANI in B.S. 2005. The Telecommunication Department was later established in B.S. 2016 in compliance with the First National Five-Year Plan (2012-2017). To better serve the needs of the public during the third five-year plan (2023–2028), the Telecommunication Department was renamed as the Telecommunications Development Board in B.S. 2026. Nepal Telecommunications Corporation was formally established in B.S. 2032 as a fully owned government corporation to provide telecommunication services to the people of Nepal following the passing of the Communications Corporation Act, of 2028. On Baisakh 1, 2061, Nepal Telecommunication Corporation was renamed Nepal Doorsanchar Company Limited in recognition of its 29 years of honourable and successful service to the nation. Nepal Doorsanchar Corporation Limited is a legally recognized corporation under the Company Act, 2053.

Telecommunication is a dependable means of communication, even while other means, such as mail and other modes of transportation, are more expensive, less practical, and slower than it is. It makes it easier for different government efforts to coordinate, which ultimately increases administrative effectiveness. It is expected that greater administrative efficiency will result in improved resource and societal utilization, government decision-making, and labour force mobilization for the achievement of national objectives.

Communication links with other countries facilitate the expansion of the tourism industry, one of the main industries generating foreign exchange profits. Among the citizens of other nations, it not only strengthens national unity and the economy but also cultivates a spirit of camaraderie. Through the exchange of knowledge and cross-cultural understanding, telecommunication has also significantly advanced social circumstances.

Without considering the role of telecommunications, it is impossible to comprehend Nepal's progress as a developing country. In Nepal, it is difficult to find an industry that does not integrate telecommunication. The potential impact of telecommunications on rural areas and their role in rural development is considerable, even though it is hard to measure. NTC has made a substantial contribution to the agriculture sector by sharing information about market conditions and prices. Communication has therefore proven to be quite beneficial in assisting both developed and developing countries in achieving their objectives.

Theoretical Framework and Empirical Literature

The process of economic growth involves taxes, as per the latest research on growth. Up until recently, the steady state approach and external shifts were the primary sources of boom tendencies. Theoretically, taxes have no longer an impact on the boom (Myles 2000). The creation of endogenous boom models has expanded the field of fiscal policy, especially tax policy, by pointing up methods to enhance performance. Barro (1990), King and Rebello (1990), and Jones et al. (1993) have been the pioneers in this regard. Human capital investment and household saving habits are influenced by tax structure and intensity. However, the business also modifies its improvements and funding decisions to comply with tax laws (Johansson et al. 2008). These choices and incentives in the accumulation of human and physical capital are what cause the "Growth" disparities between the national and state economies.

A wide range of concepts and frameworks are used and used by several academics, researchers, and scholars in their quest for knowledge regarding the connection between taxation and financial growth. Several studies were carried out to investigate the relationship between tax laws and economic growth. On the other hand, some research has shown that taxes bolster the efficiency of the economic system, while other research has shown that taxes hinder the financial boom and the GDP of developing countries. According to Solow (1956), policies that force workers to put in a lot of labour and advance their abilities have an impact on economic growth. In essence, GDP is a tool for calculating and measuring economic production.

Myles (2000) examined the empirical and theoretical data to determine whether there is agreement on how taxes impact the pace of economic expansion. As demonstrated, there are several pathways through which taxes might impact growth, and these effects may be rather significant, according to the theoretical models. The fundamental patterns in the allocation of the total tax burden across the 27 EU member states from 1995 to 2010 have been examined by Stoilova and Patonov (2012). Regression analysis is employed to assess the accuracy of their prediction. The empirical findings demonstrated that direct taxes have a distinct and significant effect on economic growth. This is because wealth taxes have generated effective gains in revenue accumulation. When it comes to fostering economic growth in the EU member states, direct taxation tax arrangements work better.

Stoilova (2017) used regressions on pooled panel data to examine the effect of taxes on economic development in EU-28 member states between 1996 and 2013. According to her research, taxes on consumption, personal income, and real estate have a greater positive impact on economic growth than value-added taxation, which hurts the economies of the EU-28. Iswahyudi (2018) combined the frameworks of endogenous growth models and neo-classical growth models to examine the relationship between tax structure and economic growth in the case of Indonesia, covering the years 1984–2015. Panel growth regressions that take into consideration human capital and tax structure indicators are used to analyze the growth effects of the combination of consumption and income taxes. According to empirical findings, consumption taxes have a positive and statistically significant impact on economic growth, but income taxes have no discernible effect on growth.

Pokharel (2018) has investigated the connection between SAARC countries' economic growth and tax reforms. The research has revealed an imbalance in factors resulting from nations that grant exemptions or credits for earnings repatriated; hence, the incentives for tax competitiveness ought to be contingent upon the makeup of the investing nations. According to empirical evidence, tax rate increases have a long-lasting negative impact on the growth of GDP per capita. According to the study's conclusion, the GDP growth rate of SAARC countries will increase if tax rates are lowered.

Pokharel (2019) examines, taking into account several variables, how tax adjustments affect economic growth. A rise in taxes has a consistently negative and long-lasting effect on real GDP per capita, according to an analysis of annual data from 1990 to 2012 across ten economies. Based on the total tax ratio to GDP, the analysis finds that a 1% increase in the overall tax rate has a significant long-term impact on real GDP per capita. Furthermore, compared to raising taxes on goods and services, the research indicates that contributions from foreign direct investment (FDI) and other levies have a greater negative effect on per capita output.

Egbunike et al. (2018) examined how taxes affected Ghana's and Nigeria's economic expansion. Multiple regressions were employed in the study as analytic techniques. According to the study, tax income had a favourable effect on Ghana's and Nigeria's GDP, supporting earlier findings. Hakim (2019) examined how direct and indirect taxes affected overall tax collection and economic growth in a group of 51 countries between 1992 and 2016. The dynamic panel generalized method of moments (GMM) estimation was used to estimate the data. The findings show that whereas indirect taxes appear to have a small but beneficial effect on the dependent variables, direct taxes have a large and negative correlation with economic growth. The study found that while direct taxation, such as income, profit, and capital gains taxes, is more effective at raising national revenue, it is detrimental to economic growth.

Neog and Gaur (2020) investigated the relationship between tax structure and state-level growth performance in India, both in the short and long terms. Based on linear regression analysis, it was found that whereas property taxes promote growth, commodities and service taxes had the opposite effect. The results of property taxes, which show that high property taxes promote growth, are supported by the non-linear regression. Lowering the overall tax burden and switching from income and commodity taxes to property taxes as a source of revenue generation is the most promising course of action for long-term growth performance in India's states, according to the report.

Stoilova and Patonov (2020) used data from Bulgaria to study the relationship between growth and fiscal policy in small emerging economies. The empirical data demonstrates that Bulgaria's government spending significantly raises the country's annual GDP growth rate. This makes taxes one of the most dependable tools for implementing fiscal policy, which is consistent with the circumstances of a small, open developing market economy. The significant negative current account balance that has been maintained for a long time is most likely the reason behind the diluting of public spending efforts.

Tsaurai (2021) used panel data spanning from 2007 to 2017 to examine the effects of taxation on economic growth in emerging markets utilizing the dynamic generalized methods of moments (GMM), fixed effects, pooled ordinary least squares (OLS), and random effects processes. by dynamic GMM and random effects, tax income has been found to have a considerable beneficial impact on economic growth, whereas financial development has been validated by fixed and random effects approaches. Using the dynamic GMM and pooled OLS econometric estimate methodologies, the study also discovered that the complementarities between taxes and financial development have a considerable positive impact on economic growth in emerging markets. The influence of taxes on (2021) has been studied.

Kharel (2021) has studied the relationship between Nepal's economic growth and tax income between 2000 and 2015. To determine the relationship between tax revenue and economic growth, the study employed linear regression analysis. The analysis demonstrated a distinct and significant relationship between GDP and tax revenue overall. Tax income has a considerable beneficial effect on GDP. The amount of tax income affects how quickly the economy grows. He has discovered that when overall revenue rises, so does the GDP. The above study showed a clear and strong impact of the tax revenue and total tax revenue on GDP. There is a significant positive impact of tax revenue on GDP. Tax revenue influences the economic growth of the economy. Researchers found that an increase in total revenue results increase in GDP.

Research Problem:

The progressive expansion in the output of commodities and services is known as economic growth. Considering that the government offers public goods and services, it would appear that this is in line with its mission. The government gathers taxes to meet its responsibilities. According to Riba (2017), taxes appear to have an impact on economic growth. Consequently, the precise research question for this study is as follows:

i. Is there a significant trend of tax revenue and revenue on GDP contribution by NTC?
ii. Is there a relationship between taxes, economic growth and contribution by NTC in Nepal?

Research Objectives:

In Nepal, the primary source of revenue for the government is tax collection from citizens, companies, investors, and other entities. Taxes, whether mostly positive or negative, have a range of effects on GDP and the economy. Tax revenue is the main source of funding for the government. Examining the overall status of government revenue about GDP is the aim of this study. The specific objectives are:

1. To examine the trends of revenue contribution by NTC on tax revenue and GDP of Nepal.
2. To observe the impact of NTC's total contribution to government funds and tax revenue on GDP.

Research Hypotheses:

The following is the proper research hypothesis for this study, which is based on the aforementioned research objectives:

H1: According to NTC, there is a noteworthy positive correlation between total contributions and economic growth in Nepal.

Limitation of the Study:

There are these limitations of the current study: Data availability concerning variables is dependent on the secondary sources from 2012/13 to 2022/23. Various factors may have an impact on economic growth but only income tax revenue collected in totality and revenue contribution is taken into consideration. Only income tax is used as a variable in the current study.

Scope of the Study:

This research paper tries to determine the relationship between the NTC's contribution to GDP and the NTC's contribution to economic development only. Various factors have a direct or indirect impact on economic growth.

Research Gap:

The body of research on the connection between taxation, particularly income tax, and GDP growth across national boundaries typically points to a negative link. On the other hand, our analysis of the Nepali context shows the opposite outcome, indicating a positive correlation between these variables. Due to the dearth of studies addressing the precise causes of Nepal's unique pattern of a positive link between tax and GDP development, this remarkable departure demands an investigation into the research gap. Comprehending this oddity is imperative for the development of policy and economic strategies in Nepal, hence requiring an exhaustive inquiry into the elements that give rise to this distinct association and set it apart from the dominant worldwide patterns.

Research Methodology:

This research paper employed secondary data obtained from different governmental and non-governmental organizations using a descriptive and analytical research design. The data were collected from the Central Bureau of Statistics, the Quarterly Economic Report from Nepal Rastra Bank, the Annual Report of NTC, data from the Tax Revenue Department, economic research and other publications from the Ministry of Finance, the Statistical Year Book, etc.

The relationship between NTC's total contribution to Government funds, tax revenue, government spending and GDP has been studied using a basic linear regression model. It has been predicted that NTC's total contribution to Government funds, overall tax revenue, and spending will have an impact on GDP and economic growth in Nepal. In light of this, the following model is designed to investigate how NTC's total contribution to Government funds, overall tax revenue, and government spending affect GDP. The impact of tax revenue (T×R) on GDP is estimated by:

$$GDP_t = \alpha_0 + \beta_1 + T \times R_t + \epsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (i)$$

Where, GDP is the gross domestic product. The α_0 is constant; β_1 is coefficient parameter and ϵ_t is the error term. The GDP is expected to be increase due to increase in tax revenue.

The impact of NTC total revenue (NTR) on GDP is estimated by:

$$GDP_t = \alpha_0 + \beta_1 + NTR_t + \epsilon_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (ii)$$

Where, GDP is the gross domestic product. The α_0 is constant; β_1 is coefficient parameter and ϵ_t is the error term. The GDP is expected to be increase due to increase in tax revenue.

NTC's total revenue contribution to government funds includes advance income tax, value-added tax, telecom service charge, ownership fees, customs duties, royalties and contribution to rural telecommunication development funds, dividends, property and vehicle taxes.

Results and Discussion: Taxation Trend in Nepal

More than 80% of the total tax money received by the government came from Nepal. Over the research periods, there are modest fluctuations in the contribution of tax revenue. Both the overall tax takes and the share of taxes in GDP have been steadily rising. Over the studied periods, the growth rate of GDM appears to be varying.

Table 1: Trends of Ratio of NTC Total Contribution on Government Fund to GDP, Tax Revenue to GDP and Growth Rate of GDP from 2012/13-2022/23

Fiscal Year	NTC to GDP	Tax Revenue to GDP	GDP Growth Rate
2012.13	1.15%	15.30%	3.53%
2013.14	1.03%	16.10%	6.01%
2014.15	0.87%	16.75%	3.98%
2015.16	0.88%	18.85%	0.43%
2016.17	0.84%	21.06%	8.98%
2017.18	0.87%	19.08%	7.62%
2018.19	0.85%	19.14%	6.67%
2019.20	0.89%	17.88%	-2.37%
2020.21	0.66%	20.39%	4.25%
2021.22	0.54%	20.29%	5.61%
2022.23	0.52%	15.92%	1.90%

Source: Economic Surveys of Fiscal of Various Years and macrotrends.net/countries/NPL/Nepal/gdp-growth rate.

Table 1 shows the trends of the ratio of NTC total contribution to Government funds to GDP, tax revenue to GDP, and the growth rate of

GDP of Nepal from FY 2012/13 to 2022/23. The ratio of NTC's total contribution to government funds was 1.15 per cent in 2012/13, which decreased to 0.52 per cent in 2022/23. The ratio of tax revenue was 15.30 per cent in 2012/13, whereas it increased to 21.06 per cent in 2016/17. Likewise, the GDP growth rate was 3.53 per cent in 2012/13, whereas it increased to 8.98 per cent in 2016/17. The amount of tax revenue and NTC total contribution to government funds to GDP has been found significantly increased but the ratio of NTC total contribution to government funds and tax revenue to GDP and the GDP growth rate has fluctuated trends during the study period.

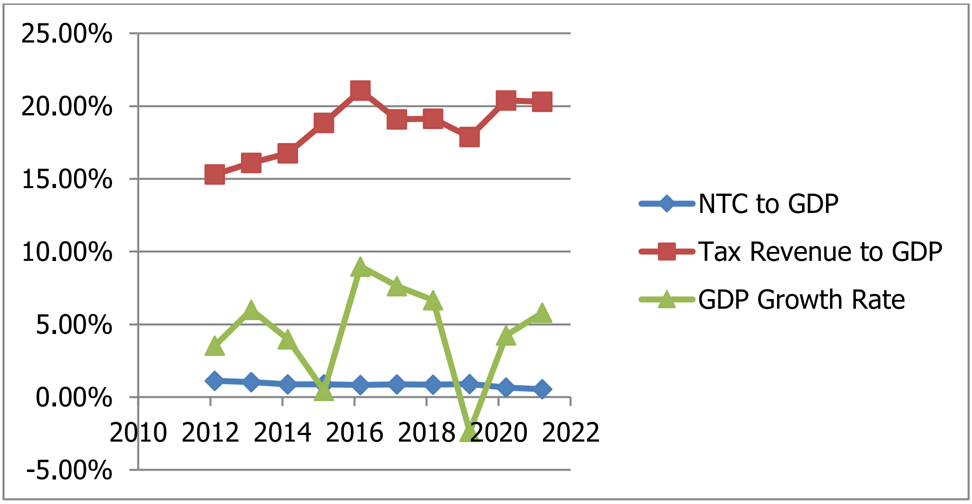

Figure:1 **Trend of NTC Tax Revenue to GDP, Tax Revenue to GDP and GDP Growth Rate**

Figure 1 shows the fluctuating trends of NTC's contribution to government funds, tax revenue and GDP. This means it is and downward trend from 2013 up to 2023.

Table 2: Trends of GDP, Total Revenue and Tax Revenue from 2012/13 to 2022/23 (Rs. in billions)

Fiscal Year	GDP	Tax Revenue	NTC Total Contribution to Govt. Fund
2012.13	1,692.64	259.22	19.00
2013.14	1.941.62	312.44	20.00
2014.15	2,423.64	355.96	21.00
2015.16	2.608,18	421.10	23.00
2016.17	3,077.14	553.87	26.00
2017.18	3,455.95	659.49	30.00
2018.19	3,859.83	738.60	33.00
2019.20	3,914.70	700.06	35.00
2020.21	4,266.32	870.11	28.00
2021.22	4,851.62	984.16	26.00
2022.23	5,381.34	856.62	28.00

Source: Economic Surveys of Fiscal of Various Years.

Table 2 shows that the volume of GDP, tax revenue and NTC's total contribution to the government funds of Nepal from FY 2012/13 to 2022/23. The size of GDP has been around Rs. 1,692.64 billion in 2012/13, whereas it has increased around Rs. 5,381.34 billion in the year 2022/23. The tax revenue has been Rs. 259.22 billion in 2012/13, whereas it has increased to Rs. 856.62 billion in 2022/23. Likewise, the total contribution to government funds of NTC was around Rs. 19 billion in 2012/13, whereas it has increased to Rs. 35 billion in 2019/20, it has gradually decreased to 26 billion in 2021/22 and 28 billion in 2022/23. The size of GDP, the total contribution to government funds and tax revenue have been found significantly increased during the study periods. However, the increasing trends of revenue and NTC total contribution to government funds fluctuate.

Economic Impact

Governments use fiscal policy as a controlling tool, and so is the relationship between total contribution to government funds, tax revenues, government spending, and economic growth.

Impact of Tax Revenue on GDP

There is a significant positive correlation between Tax and GDP, based on SPSS calculation of the impact of tax revenue on GDP. Tax revenue affects economic growth. To determine the impact of tax revenue on GDP has regressed on tax revenue. The overall model is statistically significant (R-squared = 0.927, $p<0.05$). This means that an increase in GDP is associated with an increase in tax revenue. Similarly, the R-squared value shows that 92.70% of the change in GDP is due to independent variable tax revenue. This result shows that tax revenue has a large impact on GDP. The results of regression analysis between tax revenue and GDP show that tax revenue is an important predictor of GDP (Table 03).

Table 3: Regression between Tax Revenue and GDP

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.963[a]	0.927	0.919	336.52838
a. Predictors: (Constant), Tax Revenue to GDP				

Coefficients[a]						
Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	594.442	281.696		2.110	0.064
	Tax Revenue to GDP	4.609	0.431	0.963	10.701	0.000
a. Dependent Variable: GDP Growth Rate						

There is a significant positive correlation between NTC's total contribution to Government funds, tax revenue and GDP, based on SPSS calculation of the impact of NTC's total contribution on GDP. Tax revenue affects economic growth. To determine the impact of tax revenue and NTC total contribution on government funds on GDP has regressed on tax revenue. The overall model is statistically significant (R-squared = 0.927, $p<0.05$). This means that an increase in GDP is associated with an increase in tax revenue. Similarly, the R-squared value shows that 92.70% of the change in GDP is due to independent variable tax revenue. This result shows that tax revenue has a large impact on GDP. The results of regression analysis between tax revenue and GDP show that tax revenue is an important predictor of GDP (Table 04).

Table 4: Regression between Tax Revenue, NTC Contribution to Govt. Fund and GDP

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.963[a]	0.927	0.909	356.87545		
a. Predictors: (Constant), Tax Revenue to GDP, NTC Total Contribution on Govt. Fund to GDP						
Coefficients[a]						
Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	565.872	601.469		0.941	0.374
	NTC Total Contribution on Govt. Fund to GDP	1.653	30.213	0.007	0.055	0.958
	Tax Revenue to GDP	4.585	0.638	0.958	7.187	0.000
a. Dependent Variable: GDP Growth Rate						

Impact of NTC Total Contribution on Government Fund to GDP

This study has also tried to examine the impact of NTC's total contribution to government funds on GDP. This study finds that an increase in the NTC total contribution results increase in GDP. To test the impact of tax revenue on GDP, the GDP has regressed on tax revenue using data from 2012/13 to 2022/23. The regression fit (R Squares= 0.457) because the overall relationship is statistically significant at a 5 per cent critical value. The results of regression analysis between NTC's total contribution to government funds and GDP show that tax revenue is an important predictor of GDP (Table-05).

Table 5: Regression between Tax Revenue and GDP

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.676[a]	0.457	0.397	918.77261
a. Predictors: (Constant), NTC Total Contribution on Government Fund				

Coefficients[a]						
Model				Standardized Coefficients	t	Sig.
				Beta		
1	(Constant)	-619.422	1489.126		-0.416	0.687
	NTC Total Contribution on Government Fund	153.241	55.690	0.676	2.752	0.022
a. Dependent Variable: GDP Growth Rate						

Discussion:

This study used a linear regression model to investigate how taxes affect Nepal's economic growth. The variables under analysis pertain to Nepal and comprise time series data spanning from 2012/13 to 2022/23. The empirical investigation includes descriptive analysis and an examination of the long- and short-term relationships between the study variables. Finally, to ensure that the model parameters were acceptable, diagnostic tests were also used.

This study helped to understand how tax revenue impacts economic growth in Nepal. It supports earlier studies on the subject with evidence from Nepal. The major goal ascertain how tax revenue impacts on economic growth of Nepal, in terms of total tax revenue and contribution made by NTC's on government funds to understand their implication on the economy. This study investigated the total contribution made by NTCs to the economic growth in Nepal.

This study is consistent with Myles (2000), Stoilova and Patonov (2012), Stoilova (2017), Iswahyudi (2018), Egbunike and et. al (2018), Neog and Gaur (2020), Stoilova and Patonov (2020), Tsaurai (2021), Kharel (2021) and others show that a higher proportion of income taxes significantly boosts economic growth. In a similar vein, Pokharel (2018), Pokharel (2019) and Hakim (2019) contend that income taxes do hinder economic growth.

Conclusion:

The purpose of this study is to examine the impact of NTC's total contribution to government funds, tax revenue and government expenditure on Nepal's GDP. Changes in income levels and changes in the severity of the tax system can affect economic activity. The study showed a clear and strong impact of NTC's total contribution to government funds and tax revenue on GDP. NTC's total contribution to government funds has a large positive impact on GDP. Tax revenue affects the economic growth of the national economy. The study also examined the impact of gross income on GDP. The study found that overall revenue increased which led to an increase in GDP. Indeed, well-designed tax policies can be fairly assessed as having the potential to boost economic growth, but there are many obstacles along the way and the assurance that all tax changes will improve economic performance.

The level of government revenue is lower than the level of government expenditure. Tax revenue accounts for more than 80% and non-tax revenue about 20%. Financial shortfalls are, in principle, covered by underwriting foreign grants and debt. Every year, the amount of Nepal's public debt is increasing. To reduce public debt, governments must raise tax revenues and create a taxpayer-friendly environment.

Implication:

The study highlights the important policy implications for Nepali economic planners and policymakers, highlighting the substantial influence of income tax on GDP. First, tax policies should be optimized to promote economic growth, with an emphasis on the possible advantages of a well-designed income tax system. It is recommended that policymakers deliberately modify tax laws to capitalize on the positive association that exists between higher income taxes and increasing GDP. However, it is important to ensure a gradual and balanced implementation to prevent unforeseen consequences.

Secondly, authorities ought to give priority to investing in a strong tax system, given the significant influence that income tax has in moulding economic results. Effective tax-collecting methods, open reporting platforms, and steps to prevent tax evasion are necessary for this. To guarantee that the expected advantages are realized without sacrificing fiscal integrity, a strong tax system is thought to be necessary.

Furthermore, officials are advised to keep a careful eye on economic data, particularly GDP and income tax data. Frequent evaluations can offer insights into how the dynamics of the relationship are changing, enabling prompt modifications to policy initiatives. It is believed that ongoing assessment is essential to adjusting economic policies to suit the evolving economic environment.

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