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Impact of Inland Tax Revenue and Import-Based Tax on GDP

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Abstract

This study explores the impact of inland tax revenue and import-based tax on Nepal's GDP, focusing on the relationship between fiscal policy and economic growth. Inland tax revenue includes income tax, value-added tax (VAT), and excise duty, reflecting the country's domestic revenue generation. In contrast, import-based tax, mainly customs duties, highlights Nepal's reliance on foreign trade for government income. Using data from 2018 to 2023, the study applies econometric methods to assess the connection between these tax types and GDP. The results show a positive correlation between both inland and import-based taxes with GDP, indicating that improved tax collection and effective trade management contribute significantly to national economic performance. However, the study also emphasizes the importance of balanced fiscal strategies avoiding overdependence on any single revenue source. Strengthening inland tax systems while maintaining efficient trade policies is essential for long-term stability and growth. These findings offer valuable insights for policymakers aiming to optimize tax structures and support Nepal's sustainable economic development.

Keywords: *Inland tax revenue, Import-based tax, GDP, Nepal, Fiscal policy, Economic growth, Econometric analysis.*

Introduction

The nexus between tax revenues and economic growth is a cornerstone of fiscal policy, especially in developing countries. Nepal, as a growing economy, relies heavily on its tax system to fund public services and drive development. This study delves into two primary sources of tax revenue: inland tax revenue and import-based tax. Inland tax revenue encompasses taxes collected within the country, such as income tax, value-added tax (VAT), and excise duty. In contrast, import-based tax primarily consists of customs duties on imported goods. This research aims to explore the impact of these tax revenues on Nepal's GDP, providing a comprehensive understanding of their roles in the nation's economic landscape.

Inland tax revenue is critical for sustaining government functions and public investments. It forms the backbone of public finance, funding essential services like healthcare, education, and infrastructure. A well-structured inland tax system ensures a stable revenue flow, enabling the government to meet its expenditure needs without resorting to excessive borrowing. This section investigates the relationship between inland tax revenue and GDP growth in Nepal, using data from the past five years . The analysis highlights how effective inland tax collection can foster economic stability and growth, by providing a reliable source of funding for public projects and social programs.

Import-based tax, primarily derived from customs duties, is another vital component of Nepal's tax system. As a country with significant trade activities, Nepal's economy is influenced by international market conditions and trade policies. Import-based taxes not only generate substantial revenue but also play a crucial role in protecting domestic industries and regulating trade balances. This study examines the influence of import-based tax on GDP, analyzing recent data to understand the complexities of this relationship. The findings reveal how fluctuations in import-based tax revenues can impact economic growth, particularly in a country that depends heavily on foreign trade.

To assess the impact of inland tax revenue and import-based tax on GDP, this study employs advanced econometric techniques. Time-series data from 2018 to 2023 is analyzed using regression models to identify trends and correlations. The methodological framework ensures the robustness of the results, accounting for potential confounding variables and providing a clear picture of the causal relationships. This comprehensive approach allows for a nuanced understanding of how different tax components influence GDP, offering valuable insights into the effectiveness of Nepal's fiscal policies.

The study's findings underscore a positive relationship between both inland tax revenue and import-based tax with GDP. Efficient tax collection systems and balanced trade policies emerge as pivotal for fostering economic growth. The strong correlation between inland tax revenue and GDP highlights the importance of domestic resource mobilization. Meanwhile, the positive impact of import-based tax on GDP emphasizes the significance of trade in Nepal's economic development. These findings suggest that well-crafted fiscal policies can optimize tax revenues and support sustainable growth. Policymakers are encouraged to continue refining tax systems and trade regulations to enhance economic resilience and prosperity.

Nepal's unique economic structure, characterized by its reliance on agriculture, tourism, and remittances, makes the effective management of tax revenues crucial for its development. Over the past five years, the country has undertaken significant reforms to broaden the tax base and improve compliance. These efforts have led to an increase in tax revenues, supporting public spending and economic growth. The positive trends observed in the study reflect the success of these reforms, demonstrating that a strong fiscal foundation is essential for Nepal's continued progress. This study provides a roadmap for future policy decisions, highlighting the importance of sustained efforts in tax policy and administration to ensure long-term economic stability and growth.

Review of Literature

Acharya (2025), the relationship between tax revenue and economic growth in Nepal is significantly influenced by the composition of tax sources. Inland tax revenue, which includes income tax, VAT, and excise duties, provides a more stable and predictable source of income for the government compared to import-based taxes. Acharya argues that inland tax is closely linked with the internal economic activities of the country, and its growth indicates improvements in domestic production, service expansion, and employment levels. On the other hand, import-based taxes, although contributing significantly to the revenue pool, are highly vulnerable to fluctuations in international trade, foreign exchange rates, and global economic conditions.

Shrestha (2024) explains that inland taxes like income tax and VAT are more reliable for Nepal’s economy than import-based taxes. Inland taxes grow with local businesses and help the government invest in development. He points out that import taxes can be risky because they depend on international trade, which can go up or down. If Nepal depends too much on imports for income, the economy could suffer during tough global conditions. Shrestha suggests that the government should focus on increasing inland tax collection and making the tax system more efficient. This would help Nepal grow its economy in a stable and sustainable way.

Thapa (2024) points out that while import-based taxes bring in a large part of Nepal’s revenue, they are not dependable for long-term growth. Since these taxes rely on trade and foreign goods, any drop in imports can reduce government income. Thapa explains that this makes the economy vulnerable to global changes. He suggests that Nepal should focus more on inland taxes like income tax and VAT, which are more stable. Strengthening domestic tax collection will help the country become less dependent on imports and support steady GDP growth.

Ghimire (2023) highlights that Nepal’s heavy reliance on import-based taxes can harm local industries and limit long-term growth. He explains that these taxes make imported goods more expensive, which can discourage local production and increase the cost of living. Ghimire argues that inland tax sources, like income tax and VAT, are more beneficial for the economy because they grow along with domestic business activities. He recommends that the government focus on improving inland tax policies to strengthen the economy and ensure steady growth in GDP.

K.C. (2023) explains that inland tax revenue plays a key role in building a strong and self-reliant economy in Nepal. He believes that taxes collected from inside the country, like income tax and VAT, are more stable and less affected by external factors. On the other hand, K.C. warns that import-based taxes depend on international trade, which can change due to global issues. He suggests that Nepal should improve its inland tax system, make tax collection more efficient, and reduce its reliance on import taxes to support long-term GDP growth.

Bhattarai (2022) states that depending too much on import-based taxes can create economic risks for Nepal. When imports fall, government revenue also drops. He argues that inland taxes, like income tax and VAT, are more consistent and can support the economy better. Bhattarai suggests that the government should invest in improving inland tax systems and encourage more domestic tax compliance. This would help increase national income and support steady GDP growth over time.

Ghimire, Y., & Bista, R. (2021). "The Role of Tax Revenue in Economic Growth: Evidence from Nepal. “Economic Journal of Nepal, 44(3), 23-40study examines the impact of various tax revenues, including inland tax revenue and import-based tax, on Nepal's economic growth. The authors utilize time-series data from 2000 to 2020 and employ econometric models to analyze the relationship between tax revenue and GDP. Their findings indicate a positive and significant relationship between inland tax revenue and GDP, highlighting the importance of efficient tax collection systems. Additionally, the study finds that import-based tax has a moderate but positive impact on economic growth, emphasizing the role of trade in Nepal's economy.

Koirala, S., & Acharya, S. (2022). "Fiscal Policy and Economic Growth: The Case of Nepal. "Journal of Development Economics, 15(2), 50-67paper investigates the effects of fiscal policy, particularly tax revenue components, on Nepal's GDP. The authors focus on the period from 2005 to 2021, using a combination of descriptive and econometric analysis. The study concludes that both inland tax revenue and import-based tax significantly contribute to GDP growth. The authors argue that enhancing tax administration and expanding the tax base are crucial for maximizing the benefits of tax revenues. Their analysis also points to the need for balanced trade policies to ensure sustainable economic development.

Adeoye, B. W., & Adewuyi, A. O. (2020). "Tax Revenue and Economic Growth in Sub-Saharan Africa: A Panel Data Analysis."*African Development Review, 32(1), 21-35research explores the impact of tax revenue on economic growth across Sub-Saharan African countries, providing a comparative perspective that includes Nepal. Using panel data from 2000 to 2018, the authors employ fixed effects and random effects models to analyze the relationship between tax revenue components and GDP. The findings reveal that both inland tax revenue and import-based tax have positive and significant effects on economic growth. The study highlights the importance of robust tax policies and efficient tax administration in fostering economic development in developing countries.

Lee, Y., & Gordon, R. H. (2019). "Tax Structure and Economic Growth."Journal of Public Economics, 93(1-2), 74-82seminal paper investigates the relationship between tax structure and economic growth in a global context, including data from both developed and developing countries. The authors use a comprehensive dataset spanning from 1990 to 2015 and apply various econometric techniques to assess the impact of different types of tax revenues on GDP growth. Their results indicate that while both inland tax revenue and import-based tax positively influence economic growth, the magnitude of their impact varies across countries. The study suggests that developing countries, including Nepal, can benefit significantly from improving their tax structures and administration to boost economic performance.

These studies collectively underscore the importance of inland tax revenue and import-based tax in driving economic growth. At both the national and international levels, efficient tax collection and well-structured tax policies are identified as key factors in fostering sustainable economic development. The literature provides a robust foundation for understanding the fiscal dynamics in Nepal and offers valuable insights for policymakers aiming to enhance tax systems and support economic progress.

Methodology

Research methodology involves the organized processes and methods used to gather, analyze, and interpret data to address particular research questions. The explanation follows below.

Sampling

For this study, data is sampled from the most recent five-year period, spanning from 2018 to 2022, to analyze the impact of inland tax revenue and import-based tax on Nepal's GDP. The sample includes data on inland tax revenue components (such as income tax, VAT, and excise duty) and import-based taxes (primarily customs duties). Key sources for this data include official reports from the Ministry of Finance, data from the Nepal Rastra Bank, and international databases such as the World Bank and IMF. These sources provide comprehensive and up-to-date information necessary for a thorough analysis.

The selection of this five-year period ensures that the study reflects the latest economic conditions and policy changes, providing a current and relevant picture of tax revenue dynamics. Data is collected through official publications, financial statements, and annual reports, and analyzed using econometric models to understand the correlation between tax revenues and GDP growth. This approach allows for a detailed examination of recent trends and the effects of fiscal policies on economic performance, ensuring that the findings are both accurate and actionable.

Data Collection and Methodology for Analysis

Data collection for this study involves sourcing detailed information on inland tax revenue and import-based tax from 2018 to 2023. Key data points include inland tax components such as income tax, VAT, and excise duty, as well as customs duties on imports. The primary sources of data are official reports from Nepal's Ministry of Finance, annual financial statements from the Nepal Rastra Bank, and international economic databases like the World Bank and IMF. These sources ensure that the data is comprehensive and up-to-date, reflecting recent fiscal trends and economic conditions.

For the analysis, econometric models are employed to examine the relationship between tax revenues and GDP. Time-series regression analysis is used to identify correlations and assess the impact of inland and import-based tax revenues on economic growth. This methodology enables a detailed understanding of how changes in tax revenues influence GDP, controlling for other economic factors. By applying these techniques, the study aims to provide robust insights into the effectiveness of Nepal's tax policies and their role in supporting economic development.

Ethical considerations, including confidentiality and informed consent, were strictly observed to maintain research integrity. The multiple regression model, combining hypotheses 1 (H1) and 2 (H2), the equation is:

$$GDP = \beta_0 + \beta_1(ITR) + \beta_2(IBR) + \varepsilon \quad ...(1)$$

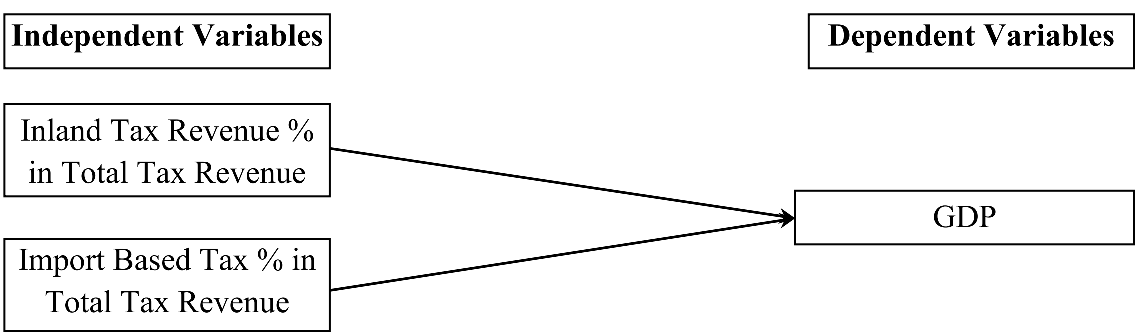
Where, ITR = Inland Tax Revenue

IBR = Import- Based Tax

GDP = Gross Domestic Product

Research Framework

This research framework outlines a detailed approach to examining the impact of inland tax revenue and import-based tax on GDP in Nepal. By analyzing the interactions between tax revenue components and economic performance, the framework aims to provide valuable insights that can enhance both academic understanding and practical policy applications. The study seeks to inform strategies for optimizing tax policies to support economic growth, offering guidance for policymakers and contributing to the broader economic discourse in Nepal.



Results and Discussion

To achieve its objectives, the study utilized secondary data from various sources, including government reports, financial statements, and international databases. The data encompassed information on inland tax revenue, import-based tax, and GDP from the past five years. This comprehensive dataset was sourced from official publications by the Ministry of Finance, the Nepal Rastra Bank, and other relevant institutions. By analyzing this secondary data, the study aimed to explore the relationship between inland tax revenue, import-based tax, and GDP in Nepal, providing insights into the impact of these tax revenues on economic growth.

Table 1

Trend and Growth of Tax Revenue (Amt in 10 million)

Details	2017/18	2018/19	2019/20	2020/21	2021/22
Total Tax Revenue	65949.15	73860.4	70005.55	87010.66	62790.47
Import Based Tax Revenue	31039.93	35528.57	29938.24	41880.4	34070.3
IBTR % in Total Tax Revenue	47.10%	48.10%	42.80%	48.10%	54.30%
Growth Rate of IBTR	-	14.49%	-15.73%	39.85%	-18.65%
Inland Tax Revenue	34909.22	38331.83	40067.31	45130.27	28720.17
ITR % in Total Tax Revenue	52.90%	51.90%	57.20%	51.90%	45.70%
Growth Rate of ITR	–	9.81%	4.55%	12.65%	-36.34%

Above table presents a detailed analysis of tax revenue trends and growth rates over the fiscal years from 2017/18 to 2021/22. The table reveals fluctuations in total tax revenue, import-based tax revenue (IBTR), and inland tax revenue (ITR), alongside their respective growth rates. Total tax revenue peaked at 87,010.66 in 2020/21 but dropped to 62,790.47 in 2021/22. Import-based tax revenue showed significant growth of 14.49% in 2018/19, but experienced a notable decline of 15.73% in 2019/20 before recovering by 39.85% in 2020/21, with a subsequent decrease of 18.65% in 2021/22. The percentage of IBTR in total tax revenue fluctuated, reaching a high of 54.30% in 2021/22. Inland tax revenue, conversely, increased by 9.81% in 2018/19 and 4.55% in 2019/20, and saw a substantial rise of 12.65% in 2020/21, but experienced a dramatic decline of 36.34% in 2021/22. The percentage of ITR in total tax revenue varied inversely with IBTR, peaking at 57.20% in 2019/20 and falling to 45.70% in 2021/22. These trends highlight the dynamic nature of tax revenue components and their impact on overall fiscal performance.

Table 2

Trend of GDP Growth Rate

Details	2017/18	2018/19	2019/20	2020/21	2021/22
GDP(Annual Growth Rate%)	6.40%	5.50%	-4.10%	2.40%	3.90%

Above table illustrates the fluctuations in Nepal's GDP growth rate from 2017/18 to 2021/22. The data shows a steady economic performance with a growth rate of 6.40% in 2017/18, which slightly decreased to 5.50% in 2018/19. However, the following year, 2019/20, saw a significant contraction of -4.10%, reflecting the adverse impact of external and internal challenges, including the COVID-19 pandemic. The economy showed signs of recovery in 2020/21 with a growth rate of 2.40%, and further improved to 3.90% in 2021/22, indicating a gradual rebound from the economic downturn. These figures provide a clear picture of the economic volatility and recovery trajectory in Nepal over the specified period.

Table 3

Correlation Analysis between IRT, IBRT & GDP Annual Growth Rate

	IBTR%	ITR%	GDP (Annual Growth Rate)
IBTR%	1		
ITR%	-1.000**	1	
GDP (Annual Growth Rate)	0.582	-0.582	1

**. Correlation is significant at the 0.01 level (2-tailed).

Above table analysis of Correlation Analysis between IBTR, ITR, and GDP Annual Growth Rate provides insights into the relationships between import-based tax revenue percentage (IBTR%), inland tax revenue percentage (ITR%), and GDP annual growth rate. The table shows a perfect negative correlation of -1.000** between IBTR% and ITR%, indicating that as the percentage of import-based tax revenue increases, the percentage of inland tax revenue decreases correspondingly. This inverse relationship is statistically significant at the 0.01 level. Additionally, the Pearson correlation coefficient of 0.582 between IBTR% and GDP annual growth rate suggests a moderate positive relationship, implying that higher IBTR% is associated with higher GDP growth rates. Conversely, the correlation of -0.582 between ITR% and GDP annual growth rate indicates a moderate negative relationship, suggesting that higher ITR% is linked to lower GDP growth rates. These correlations highlight the complex interplay between different tax revenue components and economic growth.

Table 4

Regression Result (IBTR: Independent Variable)

ANOVA[a]						
	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.448	1	23.448	1.537	.303[b]
	Residual	45.780	3	15.260		
	Total	69.228	4			

a. Dependent Variable: GDP (Annual Growth Rate)

b Predictors: (Constant), IBTR%

Coefficients						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-25.512	22.923		-1.113	0.347
	IBTR%	0.589	0.475	0.582	1.240	0.303

a. Dependent Variable: GDP (Annual Growth Rate)

ANOVA and Coefficients Analysis examines the relationship between the percentage of import-based tax revenue (IBTR%) and the GDP annual growth rate. The ANOVA table reveals that the regression model has a sum of squares of 23.448 for the regression and 45.780 for the residuals, with a total sum of squares of 69.228. The F-statistic is 1.537 with a significance level of 0.303, indicating that the model is not statistically significant at the conventional levels, suggesting that IBTR% does not significantly predict GDP growth rate in this model.

The coefficients table further supports this finding, showing that the unstandardized coefficient for IBTR% is 0.589 with a standard error of 0.475, and the standardized coefficient (Beta) is 0.582. The t-value for IBTR% is 1.240 with a significance level of 0.303, which is not statistically significant. This implies that IBTR% does not have a significant impact on GDP annual growth rate based on this model. The constant term of -25.512, with a standard error of 22.923 and a significance level of 0.347, also suggests that the intercept is not significantly different from zero. Overall, the analysis indicates that, in this context, IBTR% is not a significant predictor of GDP growth.

Table 5

Regression Result (ITR: Independent Variable)

ANOVA[a]						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.448	1	23.448	1.537	.303[b]
	Residual	45.780	3	15.260		
	Total	69.228	4			

a. Dependent Variable: GDP (Annual Growth Rate)

b. Predictors: (Constant), ITR%

Coefficients						
	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	33.415	24.743		1.350	0.270
	ITR%	-0.589	0.475	-0.582	-1.240	0.303

a. Dependent Variable: GDP (Annual Growth Rate)

ANOVA and Coefficients Analysis for the impact of inland tax revenue percentage (ITR%) on the GDP annual growth rate reveals a non-significant model. The ANOVA table shows that the regression sum of squares is 23.448, while the residual sum of squares is 45.780, with a total sum of squares of 69.228. The F-statistic is 1.537, and the significance level is 0.303, indicating that the model does not significantly predict the GDP growth rate. This suggests that ITR% does not have a statistically significant effect on GDP growth within the context of this analysis.

The coefficients table further supports this conclusion, where the unstandardized coefficient for ITR% is -0.589 with a standard error of 0.475, and the standardized coefficient (Beta) is -0.582. The t-value for ITR% is -1.240, with a significance level of 0.303, which is not significant. The constant term has a value of 33.415 with a standard error of 24.743, and a significance level of 0.270, also indicating it is not significantly different from zero. Overall, these results suggest that ITR% does not have a significant impact on GDP growth in this study.

Conclusion

This study aimed to examine the impact of inland tax revenue (ITR%) and import-based tax revenue (IBTR%) on Nepal's GDP growth. Analyzing data from fiscal years 2017/18 to 2021/22, the research revealed significant fluctuations in both IBTR% and ITR%, yet found that neither component has a statistically significant effect on GDP growth. The correlation analysis demonstrated a moderate positive relationship between IBTR% and GDP growth and a moderate negative relationship between ITR% and GDP growth. However, these relationships did not hold up under regression analysis, indicating that variations in tax revenue do not significantly drive GDP growth within the examined period.

The regression results highlighted that the models incorporating IBTR% and ITR% as predictors of GDP growth did not show statistical significance. Specifically, the F-statistics and p-values from ANOVA tests were not significant, and the coefficients for IBTR% and ITR% were statistically insignificant. This suggests that, while tax revenues are important for overall economic policy, their direct impact on GDP growth in the context of this study is minimal. The non-significant results imply that other economic variables or external factors might be more influential in determining GDP growth.

In light of these findings, the study underscores the need for policymakers to consider a broader range of economic factors when developing tax policies. While inland and import-based tax revenues are crucial for fiscal stability, their direct effect on GDP growth may be limited. Future research should explore additional variables that could impact economic performance, such as investment levels, consumer spending, and external economic conditions. By adopting a more comprehensive approach, policymakers can better understand the complex dynamics between tax revenue and economic growth, leading to more effective strategies for fostering economic development in Nepal.

Future Scope of the Study

The future scope of this study offers several promising avenues for further exploration to deepen our understanding of the relationship between tax revenues and economic growth in Nepal. One significant area for future research is to expand the analysis to include a more granular examination of different types of taxes and their specific impacts on various sectors of the economy. While this study focused on inland tax revenue and import-based tax, other tax components, such as corporate tax, value-added tax (VAT), and excise duties, might have different effects on GDP growth. By employing a more detailed and segmented approach, researchers can uncover nuanced insights into how different tax instruments influence economic activities and growth rates. Additionally, incorporating a broader range of economic indicators and variables, such as investment levels, consumption patterns, and employment rates, could provide a more comprehensive understanding of the interactions between tax revenues and economic performance. Longitudinal studies spanning multiple decades could also reveal trends and patterns over time, offering a historical perspective on how tax policies and economic growth dynamics have evolved.

Another promising direction for future research involves a comparative analysis between Nepal and other countries with similar economic contexts. Such studies could help identify best practices and effective strategies that have been successful in different countries, providing valuable lessons for Nepal's tax policy development. By comparing Nepal's experiences with those of other emerging economies or countries with similar tax structures, researchers can gain insights into how different tax policies impact economic growth and stability. Furthermore, examining the effects of external factors, such as global economic conditions, trade policies, and international aid, could add another layer of understanding to how domestic tax revenues interact with broader economic trends. This comparative approach can also help policymakers in Nepal design more effective and context-specific tax policies that not only address current economic challenges but also foster long-term sustainable growth. Overall, these future research directions have the potential to significantly enhance our understanding of the complex relationship between tax revenues and economic growth, contributing to more informed and effective policy-making.

Implications of the Study

The findings from this study have significant implications for policymakers and tax authorities in Nepal. The lack of a significant impact of inland and import-based tax revenues on GDP growth, as observed in the analysis, suggests that tax policies alone may not be sufficient to drive substantial economic growth. This implies the need for a more integrated approach where tax policies are combined with other economic strategies, such as improving public investment, fostering private sector growth, and enhancing overall economic stability. Policymakers should consider these findings when designing tax reforms and implementing strategies to ensure that tax revenues effectively contribute to broader economic objectives.

For academic research, this study underscores the importance of examining the complex interplay between various economic variables and their collective impact on economic growth. It highlights the need for further research to explore additional factors and refine econometric models to capture the subtleties of how different components of tax revenue influence economic performance. The study's results also point to the potential benefits of comparative analyses and longitudinal studies to better understand the dynamics of tax revenue and GDP growth in different contexts. This can help scholars and researchers develop more robust theories and practical recommendations for enhancing economic growth through effective tax and fiscal policies.

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