

**STRUCTURE AND RESPONSIVENESS OF TAX YIELDS
IN NEPAL**

**A Thesis
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MASTER OF ARTS
in
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LETTER OF RECOMMENDATION

This thesis entitled **STRUCTURE AND RESPONSIVENESS OF TAX YIELDS IN NEPAL** has been prepared by **Mr. Giri Raj Aryal** under my supervision. I hereby recommend this thesis for final examination by the Thesis Committee as a partial fulfillment of the requirements for the Degree of **MASTER OF ARTS** in **ECONOMICS**.

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APPROVAL SHEET

We certify that this thesis entitled **STRUCTURE AND RESPONSIVENESS OF TAX YIELDS IN NEPAL** submitted by **Mr. Giri Raj Aryal** to the Department of Economics, Faculty of Humanities and Social Sciences in partial fulfilment of the requirements of the Degree of Master of Arts in Economics have found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the Degree.

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ABSTRACT

GDP is the monetary measures of the market value of all the final goods and services produced in a specific time period by countries. Taxation has a significant impact on GDP growth rates. Taxation is the major factor which supports positively for the GDP of any nation. This study analyses the Structure and Responsiveness of tax yields in Nepal. For this analysis four dependent variables i.e. Total Revenue (TR), Tax Revenue (TTR), Direct tax (DT), Indirect tax (IDT) and Explanatory variable i.e. Nominal GDP have been considered. The data for the time frame ranges from FY 1990/91 to 2016/17 are considered. The relationship has been analysed by the help of E-views 10 software. The study found that the taxes are not responsive with all elasticity coefficients and tax structure of Nepal is buoyant.

For achieving the ultimate goal of any countries, it needs huge amount of investment, Taxation may be considered as a basic tool in the path of economic development. However the study revealed that Nepal has an inelastic tax structure. Taxes are not greatly responsive to change in income with the elasticity coefficient registering below unity. Therefore the automatic responsiveness of taxes to income is seen to be low. It was not sufficient in generating adequate revenue required to finance the budget, although reforms undertaken can improve tax elasticity. From this study we can conclude that a big percentage of tax revenue comes from discretionary tax policy and not from pure responsiveness of tax revenue to changes from national income.

Considering the whole study period (1990/91-2016/17), it is concluded that Nepal has generally an inelastic tax system and a tax effort which is less than one. Therefore the tax system is not revenue enhancing. That also implies that whole period was characterized by inadequate total tax revenue. The tax system needs redesigning so as to increase tax revenue generation. Inadequate tax revenue generation testifies to the fact of the persistence of national budget deficits in Nepal.

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ABBREVIATIONS/ACRONYMS

ARDL	:	Autoregressive Distributed Lag
BS	:	Bikram Sambat
CBN	:	Central Bureau of Nigeria
CBS	:	Central Bureau Statistics
DT	:	Direct Tax
DW	:	Darwin Watson
FIRS	;	Federal Inland Revenue Service
FY	;	Fiscal Year
GDP	:	Gross Domestic Product
IDTR	:	Indirect Tax Revenue
GNP	;	Gross Domestic Product
IRD	;	Inland Revenue Depart Department
MoF	;	Ministry of Finance
NBS	:	Nigeria Budget Survey
NLSS	:	Nepal Standard Living Survey
NRB	:	Nepal Rastra Bank
NTR	:	Non-tax Revenue
OLS	:	Ordinary Least Square
SAARC	:	South Asian Association of Regional Cooperation
TR	:	Total Revenue
TU	:	Tribhuvan University
TTR	:	Total Tax Revenue
VAT	:	Value Added Tax