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Direct Tax Revenue and Economic Growth: An empirical evidence for Sri Lanka

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Abstract

Direct Tax is a vital source of revenue for each and every country to their path of economic growth. Thus, this research is about the Direct Tax Revenue and Economic Growth: An empirical evidence for Sri Lanka. According to that, the main objective of this research is to find out the relationship between the direct tax revenue and Economic Growth in Sri Lanka from the period of 1990 to 2018. This research is based on time series data collected from reliable resources like Inland Revenue Department of Sri Lanka and Central Bank Report of Sri Lanka. To achieve the objective of the research, the Multiple regression model was used with E- Views software. For the model the Gross Domestic Product (GDP) was taken as a dependent variable and Income tax, Stamp Duty and International Trade tax were taken as independent variables. According to the analysis, this research was found that the long run relationship between Income Tax, International Trade Tax, Stamp Duty and GDP have been positively and statistically significant at 1 unit level. 1unit increases of IT will increase GDP by 19.10 units, 1unit increases of ITT will increase GDP by 19.34 units and 1unit increases of SD will increase GDP by 85.15 units. Thus, this study suggest that the government need to simplify the tax system and tax payment, awareness of the importance of the taxes for the economic growth of the country should be provided to the people and systematic arrangements should be undertaken to reduce the evasion of tax payment.

Key Words: Tax Revenue, Economic Growth, Direct Tax