



TAX REVENUE AND ECONOMIC GROWTH:  
AN EMPIRICAL ANALYSIS OF MALAYSIA

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## **ABSTRACT**

This study examines the relationship between tax revenue and the economic growth in Malaysia. The study focused on the relationship of direct tax revenue, indirect tax revenue and non-tax revenue towards growth domestic product per capita in Malaysia. For the testing of hypothesis, the study consists on annual data from 1970 until 2012. The result shows all the variables were statistically significant with each other. Also, it can be concluded that direct tax revenue, indirect tax revenue and non-tax revenue (independent variable) contribute to the economic growth in Malaysia (dependent variable) with the major contribution by indirect tax.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 OVERVIEW**

This chapter will discuss mainly about background of the study, problem statement, objective, theoretical framework, hypothesis of the study, significant, scope and limitations of study and concern on the definition of key terms used in this research study.

### **1.1 INTRODUCTION OF STUDY**

In developing a country, finance plays an important role in providing the best facilities and services for the population of a country. Government revenue is the income available to fund the activities of a government. In order to develop a country, a large numbers of financial instruments needed and can be very expensive. The governments have a wide range of responsibilities in operating the various departments, maintaining the armed force, investing in development and the extermination of poverty.

The main source of public revenue is taxation. Taxes play an important role in economic planning and development. Even economic policies for every country were based on expected tax revenue and the tax policy is a fundamental of economic policies.

Table 1 below shows the tax revenue as percentage of GDP from 2008 until 2012 for four countries which are Indonesia, Malaysia, Singapore and Thailand.

**APPENDIX 1**

Year	Direct Tax Revenue (RM/Million)	Indirect Tax Revenue (RM/Million)	Non Tax Revenue (RM/Million)	GDP per Capita (USD/Million)	Non-Revenue Receipts (RM/Million)
1970	685	1,155	529	392.044	31
1971	725	1,192	471	403.712	30
1972	803	1,387	692	468.091	38
1973	907	1,900	547	694.157	45
1974	1,383	2,671	679	839.924	58
1975	1,990	2,267	796	803.325	64
1976	2,138	3,006	900	932.849	112
1977	2,901	3,761	989	1084.051	109
1978	3,300	4,266	1,118	1262.788	156
1979	3,835	5,162	1,326	1599.671	182
1980	5,495	6,565	1,675	1802.625	191
1981	6,112	6,482	2,855	1795.689	357
1982	6,398	6,192	3,529	1876.234	571
1983	7,712	7,551	3,012	2055.511	333
1984	8,445	8,029	3,791	2254.289	540
1985	9,259	7,441	3,975	2015.45	440
1986	8,654	6,029	4,355	1741.062	480
1987	6,468	6,006	5,134	1926.644	535
1988	7,509	7,199	6,623	2050.449	636
1989	7,793	8,881	7,496	2193.959	1,103
1990	10,402	10,842	6,946	2417.437	1,331
1991	13,251	12,580	7,455	2626.08	767
1992	15,403	13,369	9,603	3079.976	875
1993	17,070	14,830	9,274	3395.414	517
1994	20,160	17,327	11,338	3685.975	621
1995	22,699	18,972	8,469	4286.169	814
1996	25,851	21,421	10,330	4743.772	678
1997	30,432	23,195	11,421	4593.672	688
1998	30,015	15,321	10,883	3228.59	491
1999	27,246	18,100	12,674	3456.86	655
2000	29,156	18,017	14,093	4004.557	599
2001	42,097	19,395	17,304	3877.997	722
2002	44,351	22,509	15,759	4130.678	896
2003	43,016	21,875	23,131	4427.46	4,586
2004	48,703	23,347	26,511	4918.156	836
2005	53,543	27,050	25,052	5553.944	657
2006	61,572	25,060	36,005	6179.658	910
2007	69,396	25,772	43,950	7218.397	766
2008	82,138	30,759	45,911	8460.368	985
2009	78,375	28,129	50,789	7277.763	1,346
2010	79,009	30,507	48,867	8729.1	1,270
2011	102,242	32,643	49,423	10011.99	1,111
2012	116,937	34,706	54,909	10380.54	1,360