

## **RELATIONSHIP BETWEEN TAX COMPOSITION AND ECONOMIC GROWTH: EVIDENCE FROM SRI LANKA**

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### **Abstract**

Over the years, economists, policymakers, and researchers have engaged in a heated discussion about how taxes affect production growth. Whether the changes in tax composition have an effect on output growth over the long run is one of the primary topics that has generated more heated discussion in the field of public finance. Less clear findings on the empirical front have been emphasized in the literature. This study's objective is to calculate, within the confines of an endogenous growth model and utilizing time series annual data from 1982 to 2021, the aim of this is to study the Relationship between tax composition and economic growth evidence from Sri Lanka. We testing the Relationship between tax composition and economic growth of Sri Lanka. This analysis makes use of annual time series data for the years 1982 to 2021, which is when Sri Lanka's economic liberalization strategy was put into place. All of the information was gleaned from several editions of the Central Bank of Sri Lanka's annual report. The study also calculates the effects of distortionary and non-distortionary taxation on output growth using data on tax receipts. The theory also suggests that non-distortionary taxation has a negligible effect on growth, whereas distortionary taxes have considerable effects. Therefore, both aggregate and disaggregated data for taxes were taken into consideration in the analysis to determine whether tax structure adjustment was related to the output level. While there is a unidirectional causality running from income taxes, value added taxes, and foreign taxes to production growth, other taxes are caused by output growth, according to the empirical findings of this study. The study also discovered that income taxes and other taxes have negative and statistically significant effects on growth. This reflects the fact that, in addition to income taxes, other taxes, such as taxes on other economic activity, have stifled long-term growth.

**Key Words:** *Fiscal policy, Tax structure, Growth, Direct Tax, Indirect Tax, VAT, Import duties,*