Tax revenue is an important factor to finance different sectors of any country. The role of institutional and economic factors is considered to be most influencing to generate more revenue for a country through taxes. This study explores the positive and significant relationship between institutional factor and tax revenue of seven Asian developing countries such as Pakistan. India, China, Bangladesh, Srilanka, Indonesia and Thailand for the period of 1996-2014. To examine the existence of long run relation among variables Pedroni (1999, 2004) and Kao panel cointegration technique have been used and after confirmation of long run relation among variables Fully Modified Ordinary Least Square (FMOLS) has been applied to attain long run elasticities of the variables. Further Engle and Granger (1987) test has applied to check the direction or way of causation between these two variables.

The results of this study show that there is long run and positive relationship between Institutions and Tax revenue. Fair and transparent governing system, effective rule of law, control of corruption in tax collecting authorities tremendously increase the tax revenue of the country. Furthermore among economic trade (as a percentage of GDP) and inflation are positively affecting the tax revenue whereas agriculture share in GDP is negatively affecting the tax revenue. All the Coefficients through FMOLS are statistically significant and explaining the long run changes in tax revenue. Moreover these results suggest that institutional factors have a major role in tax revenue.

The findings of this study have some important implications such as simplifying rules on tax payment, internal audit of tax administration, provision of incentives to tax administration staff to overcome the corruption problem are given that provide a road map to increase the tax revenue in of Selected Asian developing countries.