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Role of Income Tax in Accelerating Economic Growth

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Abstract: *This essay investigates the long-term effects of individual income tax adjustments on economic growth. The design and funding of a tax reform are essential to achieving economic growth. Tax rate reductions may encourage people to work, save, and invest, but if they are not accompanied by swift spending cuts, they will likely lead to an increase in the federal budget deficit, which will eventually lead to a decrease in national saving and an increase in interest rates. Numerous estimates suggest that the impact on growth is either insignificant or adverse. Base-widening measures can lessen the impact of tax rate reductions on budget deficits, but they also have a less impact on investment, savings, and labour supply, which has a smaller direct impact on economic growth. However, they also redistribute resources between sectors to maximise their economic value, leading to greater efficiency and perhaps a larger economy as a whole. According to the findings, not all tax measures will have the same impact on economic growth. The size of the economy will be impacted more favourably in the long run by reforms that increase incentives, remove existing subsidies, limit windfall gains, prevent deficit financing, but may also lead to trade-offs between equity and efficiency*.

Keywords: budget, income tax, reforms, and economic growth

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