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Study on the Contribution of Tax System in the Economic Growth of the Nation

Mr. Ravi Singh[1], Mr. Padma Omkar[2], Mr. Mehta Vansh[3]

Assistant Professor, Lilavati Lalji Dayal Night College of Commerce, Charni Road, Mumbai[1]

SYBCOM, Lilavati Lalji Dayal Night College of Commerce, Charni Road, Mumbai[3]

TYBCOM, Lilavati Lalji Dayal Night College of Commerce, Charni Road, Mumbai[4]

Abstract: *This article examines the long-term effects of modifications to the personal income tax on economic growth. The structure and financing of a tax reform are essential for attaining economic growth. Reducing tax rates can incentivize individuals to engage in work, saving, and investment. However, if these tax cuts are not accompanied by significant reductions in government spending, they are likely to result in a larger federal budget deficit. This, in turn, will decrease national saving and lead to higher interest rates in the long term. Considerable analysis suggests that the impact on growth is either insignificant or adverse. Implementing base-broadening policies can mitigate the impact of tax rate reductions on budget deficits. However, these policies also reduce the effects on labor supply, savings, and investment, so diminishing the direct influence on economic growth. However, they also redistribute resources throughout sectors to optimize their utilization based on their highest economic worth, leading to increased efficiency and potentially a larger total economy. Findings suggest that different tax policies can have varying impacts on economic development. Reforms that enhance incentives, abolish current subsidies, reduce unexpected profits, and refrain from using deficit financing will have more advantageous long-term impacts on the size of the economy. However, these reforms may also create choices between fairness and effectiveness*

Keywords: economic growth, taxation, policy changes, financial plan, system

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