Do tax cuts increase tax revenues

Finance

Do Tax Cuts Increase Tax Revenues? Do Tax Cuts Increase Tax Revenues? In the past, American taxes were so high to the extent that people preferred to invest in other economies for their lower taxes. As a consequence, America as a country lost a lot of revenue even as its contemporaries made significant gains from the investments made by its citizens. According to Elliot, an economist working with the Conservative Way Forward, this prompted the American government to institute tax cuts so as to reduce the tax burden that citizens and foreign investors had to bear as a way of encouraging investment (Elliott, Sinclair & Taylor 2008, p. 1). This measure has led to increased investment and job creation in the American market over the past few years.

Cutting taxes may lead to increased or decreased revenue depending on the duration in which the tax cuts are applied. During an economic boom, an increase in taxes leads to increased revenue for a country. A tax increase may, however, harm the economy in the long run as people may feel the burden imposed on them and shy away from doing business in the country as noted by Sowell (2012, p. 7), an economist and senior fellow at the Hoover Institution Stanford University Stanford, . This implies that increased taxes will increase revenue in the short run but decrease revenue will do so in the long run. For instance, when President Clinton's administration got rid of trade tariffs on Chinese goods, the American market were flooded with Chinese goods. This led to an increase in business and consequently tax revenues increased. However, taxes paid by Americans increased to a level that many of them got discouraged from risking their money in business. This led to a recession which the American economy suffers to-date.

When taxes are low, many people do not feel the tax burden and are,

therefore, encouraged to risk their money in business and are encouraged to comply with tax laws (Hungerford 2012). If many people invest in business and earn dividends, they will contribute a lot in revenue to the economy as opposed to if fewer people were involved (Sowell 2012, p. 5). With a lower tax burden, people grow richer faster and consequently move to a higher tax brackets which mean increased revenue for the government. Furthermore, when more people invest, many of them grow richer and consequently pay more taxes which translates to more revenue. A specialist in public finance, Hungerford notes that the revenue generated by an economy that has lower tax rates is often much higher than that that generated by higher tax rates (Hungerford 2012, p. 15). For example, the President Bush era saw nationals and businesses pay less tax and enjoy more incentives to invest. This encouraged many people to invest in various businesses leading to increased stock market profits and income and therefore higher revenue (Hungerford 2012).

Currently, tax rates in America are very low. This has encouraged economic growth. Economic projections show that with the current trend of investment, many people are going to make enormous gains. This has created a channel for many Americans to get wealthier. This promises increased revenue to the treasury given the likelihood of the many people moving to a higher tax bracket.

Following the economic analysis, it is clear that tax cuts increase revenue. The same is experienced when there are cuts in capital gains. The rich will risk more of their disposable income in business. This makes investments and financial gains to increase leading to higher tax revenues. When taxes are high in a country, people who earn much opt to invest in other countries

where they feel the tax burden is bearable. Also, those with disposable income are less willing to invest their finances hence leading to lower tax revenue.

References

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