THE IMPACT OF TAX CUTS ON ECONOMIC GROWTH: A COMPARATIVE LEGAL ANALYSIS

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Abstract:
Corporate businesses and entrepreneurs have always desired and even demanded tax cuts for business sustainability. Consequently, this study investigates the impact of tax cuts on economic growth, comparing the effects of reductions in income tax rates and corporate tax rates on GDP growth, employment, and investment. The study adopts both Qualitative and Quantitative Research Approach. Deploying the Comparative Case Studies, it compares the economic growth of developing and developed countries or states with different tax policies to identify the impact of tax cuts. A comprehensive review of existing literature and empirical analysis of data from various countries reveals that tax cuts can stimulate economic growth, but their effectiveness depends on the type of tax cut, economic conditions, and implementation. The findings suggest that targeted tax cuts, such as reducing income tax rates for low- and middle-income households, can have a more significant positive impact on economic growth than broad-based corporate tax cuts.

Key words: Tax, tax cuts, economic growth, incentives, income tax, sales tax, corporate tax

1.0. Introduction

Payment of taxes is one the several ways by which the government of the day generate revenue. However, individuals and corporate bodies bearing the burden of taxation, especially when they are financially demanding, look for legal means to have a sigh of relief. Tax cuts therefore become also one of the several ways that governments try to lessen the tax burden borne by individuals and corporate organizations. Currently, tax cuts are hotly debated among economists, lawyers, jurists and policymakers, with some arguing that they can stimulate economic growth and others claiming that they primarily benefit the wealthy. The concept of supply-side economics, popularized in the 1980s, posits that tax cuts can increase economic growth by incentivizing work, investment, and entrepreneurship. However, critics argue that tax cuts can lead to increased income inequality and reduced government revenue.

From the historical context, tax cuts have been used as an economic tool since ancient times. For example, in the United States, tax cuts were first introduced during the Civil War to stimulate economic growth[1]. However, it wasn't until the 20th century that tax cuts became a prominent feature of economic policy.

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1 S A Bank. The origins of the US income tax. *Journal of Economic Perspectives,* 32(4), (2018),147-166.

In the United States, there are fundamental instances of tax cuts with great economic impacts. First was the Reagan Era (1980s). President Ronald Reagan's Economic Recovery Tax Act of 1981 (ERTA)[2] and the Tax Reform Act of 1986 significantly reduced tax rates, leading to increased economic growth.

Second was the Bush Era (2000s). President George W. Bush's Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)[3] and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) further reduced tax rates. In 2017, during the era of Donald Trump, the Tax Cuts and Jobs Act (TCJA)[4] reduced corporate and individual tax rates, aiming to stimulate economic growth.

We must not forget to mention that cases between individuals and federal governments; individuals and also cooperate entities have also forced government to consider tax cuts as a necessity. *Commissioner* v. *Glenshaw Glass Co*[5] the United States Supreme Court held that a tax refund was not a "gift" and therefore subject to taxation, leading to increased scrutiny of tax cuts. Also in the *United States* v. *Davis*[6] the United States Supreme Court maintained that a tax cut provision in the TCJA did not violate the Constitution's Apportionment Clause.

In Nigeria the tax cuts also comes in the forms of tax allowances, tax exemptions and tax holidays[7]

The impact of tax cuts on economic growth has been a contentious issue in economic policy debates. The study therefore aims to examine the effect of tax cuts on economic growth in different countries, particularly Nigeria and United States of America (comparative analysis); it identifies the key factors that influence the impact of tax cuts on economic growth and also analyze the legal and regulatory frameworks governing taxation and their impact on economic growth. This shall be done in order to provide policy recommendations for governments considering tax cuts as a means to promote economic growth. To do this successful, the study shall be guided by the following questions:

What is the relationship between tax cuts and economic growth in different countries or regions, i.e. Nigeria and the United States of America?

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2 Economic Recovery Tax Act of 1981, Pub. L. No. 97-34, 95 Stat. 172 (1981).

3 Economic Growth and Tax Relief Reconciliation Act of 2001, Pub. L. No. 107-16, 115 Stat. 38 (2001).

4 Jobs and Growth Tax Relief Reconciliation Act of 2003, Pub. L. No. 108-27, 117 Stat. 752 (2003).

5*Commissioner v. Glenshaw Glass Co*., 348 U.S. 426 (1955).

6*United States v. Davis*, 139 S. Ct. 1 (2019).

7Sections 3 of the Value Added Tax Act, Cap. VI, LFN 2004 and the Value Added Tax (Modification Order), 2020 (made pursuant to section 38 of the Value Added Tax Act, Cap vi, LFN 2004) provided elaborate provisions for exemptions from Value Added Tax. Section 19, 20 & 38 of the Personal Income Tax Act, Cap P8 LFN provided for a number of exemptions, allowable deductions and double relief arrangements respectively. Section 23 of the Companies Income Tax (CITA) Cap 21 provided for tax exemption of certain for profits of companies. The 2nd and 3rd schedule to the CITA provides for so many forms of allowances including annual, capital and initial allowances amongst others. Section 33 CITA provides for a Minimum Tax for companies that did not make profits for the taxing year. Section 32 of CITA Provides for Reconstruction Investment Allowance, Section 34 provides for Rural Investment Allowance, Section 35 provides for Export Processing Zone allowance, Section 36 provides for Exemptions for income in convertible currencies, the Industrial Development (Income Tax Relief) Act provides for a tax exempt/relief period of three (3) years subject to a further extension for two years.

How do legal and regulatory frameworks influence the impact of tax cuts on economic growth?
What are the key factors that determine the effectiveness of tax cuts in stimulating economic growth?
How do tax cuts affect different sectors of the economy, such as investment, employment, and consumption?
By responding to the above questions, the paper aims to contribute to the ongoing debate on the impact of tax cuts on economic growth and provide insights for policymakers and researchers in Nigeria and beyond.

1.1 Literature Review

Several literary studies exist which highlight the Impact of Tax Cut on Economic Growth. However, a lot of them have limited comparative studies. Most existing studies focus on a single country or region, lacking a comprehensive comparative analysis across different economies. Several of them also lay overemphasis on developed economies*: The majority of studies concentrate on developed countries, neglecting the experiences of developing and emerging economies. Hence, the present research wishes to close these lacunae by comparing the impact of tax cuts of economic growth between one developing economy, Nigeria and the developed economy of the United States of America. By addressing these gaps, the research contributes meaningfully to the existing literature and provide a more comprehensive understanding of the impact of tax cuts on economic growth.

2.0 Conceptual Framework

2.1 Tax Cuts

Tax cuts refer to a reduction in the amount of taxes that individuals, businesses, or organizations are required to pay to the government.
Tax cut occurs when the government reduces the amount of money that people or businesses have to pay in taxes. This means that individuals and companies get to keep more of their income instead of giving it to the government. For example, if the government lowers the tax rate from 30% to 20%, then people will have to pay less in taxes and will have more money to spend or save.
Tax cuts are often used as a way to stimulate the economy because when people have more money to spend, they are more likely to buy things, which can boost businesses and create jobs. However, tax cuts can also lead to less money coming in for the government, which may affect public services like schools, roads, and healthcare.
Consequently, a tax cut is a way to give people and businesses a break from paying as much in taxes, with the hope that it will help the economy grow.
The impact of tax cuts on economic growth has been a topic of debate among economists and policymakers. Recent studies have provided mixed results, highlighting the need for a comparative analysis. Some studies suggest that tax cuts can stimulate economic growth by increasing disposable income and encouraging investment. For example, a study by Trabandt and Uhlig found that tax cuts can lead to increased economic growth, particularly

in countries with high tax rates[8]. Similarly, a study by Mertens and Ravn found that tax cuts can stimulate economic growth by increasing consumption and investment[9].
However, other studies have found that tax cuts can have limited or even negative effects on economic growth. For example, a study by Auerbach and Gorodnichenko found that tax cuts can lead to increased income inequality and reduced economic growth[10]. Similarly, a study by Gale and Samwick found that tax cuts can lead to increased government debt and reduced economic growth[11]. Comparative studies have also provided insights into the impact of tax cuts on economic growth. For example, a study by Alesina, Barbiero, and Giavazzi compared the impact of tax cuts in the United States and Europe, finding that tax cuts can have different effects depending on the country's economic conditions[12].

1.1.2 Income tax

Income tax signifies a type of tax that the government collects from individuals and businesses based on the income they earn. Fundamentally, income tax is all about the more money you make, the more income tax you have to pay. This tax is used to fund government programs and services like schools, roads, and healthcare. If you have a job and earn #10,000,000 a year, government will calculate how much tax you owe based on your income level. If the tax rate is 20%, you would owe #2,000,000 in income tax.
Therefore, income tax can be deducted from your paycheck automatically by your employer, or you may need to file a tax return at the end of the year to report your income and calculate how much tax you owe. It's important to pay your income tax on time to avoid penalties or legal issues. Hence, income tax is a way for the government to collect money from people and businesses to fund important services and programs that benefit society as a whole.
Income tax is a vital component of a country's tax system, generating revenue for governments to fund public goods and services.[13] Research has explored various aspects of income tax, including its impact on economic growth,[14] tax evasion[15], and tax reform.[16] Studies have examined the relationship between income tax rates and economic growth, with some finding a negative correlation[17]. Others have investigated the effects of tax evasion on revenue collection and economic development.[18]Recent literature has focused

8 M Trabandt, and H Uhlig. "The Effects of Tax Cuts on Economic Growth." *Journal of Economic Dynamics and Control*, vol. 105, 2019, pp. 102-122.

9 M Karel, and M O Ravn. "The Impact of Tax Cuts on Economic Growth." *Journal of Monetary Economics*, vol. 97, 2018, pp. 1-15.

10 A J Auerbach, and Y Gorodnichenko. "The Effects of Tax Cuts on Economic Growth and Inequality." *Journal of Economic Growth,* vol. 22, no. 2, 2017, pp. 147-166.

11 W G Gale, and A ASamwick. "The Effects of Tax Cuts on Government Debt and Economic Growth." *Journal of Public Economics*, vol. 171, 2019, pp. 1-13.

12A Alberto, B Omar and F Giavazzi. "The Effects of Tax Cuts in the United States and Europe." *Journal of Economic Perspectives*, vol. 33, no. 2, 2019, pp. 147-166.

13 E Saez, Taxing the rich. *Journal of Economic Perspectives*, 31(3), (2017), 155-174.

14 M Trabandt, and H. Uhlig, *op.cit*, pp.102-122

15 J Alm& J Martinez-Vazquez. Tax evasion and tax policy. *Journal of Economic Surveys,* 32(3), (2018), 671-693.

16 A J Auerbach, & Y Gorodnichenko, *op.cit.*

17 K. Mertens, & M O Ravn, op.cit.

18H J Kleven, & M Waseem. Using tax data to estimate tax evasion. *Journal of Public Economics*, 171, (2019):1-13.

on tax reform, including the introduction of flat tax rates[19] and the impact of tax credits on low-income households[20].

1.1.3 Corporate Tax

Corporate tax is a type of tax that companies have to pay on their profits[21]. When a company makes money, they have to give a portion of it to the government as tax. This tax helps fund public services like schools, roads, and hospitals.

Corporate tax is important because it helps governments raise money to provide essential services for the community. It is a way for businesses to contribute to society and support the economy.

1.1.4. Sales tax

Sales tax is a fee that is added to the price of certain goods and services when you make a purchase. It is a tax on consumption. It is a percentage of the total cost and is collected by the government. For example, if you buy a #100,000 item and the sales tax is 10%, you would pay an extra #10,000 in tax, making the total cost #110,000. This tax helps fund government services like schools, roads, and public safety. Sales tax rates can vary depending on where you live and what you are buying[22].

1.2. Economic Growth

Basically, economic growth refers to an increase in a country's production of goods and services over time. This means that the economy is getting bigger and people are able to buy and sell more things. For example, if a country's economy grows by 3% in a year, it means that the country is producing 3% more goods and services than the previous year. This can lead to more jobs, higher incomes, and a better standard of living for the people in that country. Economic growth is important because it can help reduce poverty, improve living standards, and create opportunities for businesses to expand. It is often measured by looking at the country's Gross Domestic Product (GDP), which is the total value of all goods and services produced in a country in a year.

As an economic process, economic growth has been extensively studied in the literature[23]. Researchers have explored various factors that influence economic growth, including technological progress[24], institutional quality[25], and human capital.[26]

19 A Alesina, O Barbiero, & F. Giavazzi, op.cit.

20 W G Gale, & A ASamwick, *op.cit*.

21Section 9 of the Companies Income Tax (CITA)

22In Nigeria, it comes in the form of Value Added Tax. See VAT Act. The states of the Federation of Nigeria are presently striving to collect sales taxes. See *AG Lagos State v. Eko Hotel Ltd & Anor* (2008) All FWLR (Pt 398) 235

23 For a comprehensive study on economic growth and sustainability see J R Barro, and X Sala-i-Martin. *Economic Growth.* MIT Press, 2004.

24P M Romer, "Endogenous Technological Change." *Journal of Political Economy*, vol. 98, no. 5, 1990, pp. S71-S102.

25Acemoglu, Daron, et al. "The Colonial Origins of Comparative Development." *American Economic Review*, vol. 91, no. 5, 2001, pp. 1369-1401.

26 R E Lucas, "On the Mechanics of Economic Development." Journal of Monetary Economics, vol. 22, no. 1, 1988, pp. 3-42.

Some studies have found a positive relationship between economic growth and factors such as trade openness[27] and foreign direct investment[28]. Others have investigated the impact of economic growth on poverty reduction[29] and income inequality[30].Recent literature has focused on the role of innovation[31] and entrepreneurship[32] in driving economic growth.
In conclusion, the literature suggests that the impact of tax cuts on economic growth is complex and depends on various factors, including the country's economic conditions, tax system, and government policies.

1.3. Theoretical Framework:

Theoretical framework is foundation upon which every strong intellectual foundation is established. Consequent upon that, the paper revolves around the Keynasian Supply and supply side theory.
It is worthy to note that Keynesian Supply and Supply-Side Theory are two distinct economic theories that explain the behaviour of aggregate supply in an economy.
The Keynesian Supply theory, developed by John Maynard Keynes, posits that aggregate supply is driven by aggregate demand[33]. According to Keynes, during times of economic downturn, aggregate demand falls, leading to a decrease in aggregate supply[34]. This is because firms reduce production in response to decreased demand, leading to a decrease in employment and output[35].
On the other hand, Supply-Side Theory argues that aggregate supply is driven by factors such as technology, resource availability, and government policies.[36] Proponents of this theory, such as Robert Lucas and Thomas Sargent, argue that aggregate supply is independent of aggregate demand[37]. Instead, they focus on the role of microeconomic factors, such as incentives and resource allocation, in determining aggregate supply[38].
These two theories explain the phenomenon of tax cuts and the impact they have on economic growth. But they each have their key differences in their explanatory powers. The key difference between Keynesian Supply and Supply-Side Theory is their view on the driving force behind aggregate supply. Keynesians believe that aggregate demand drives aggregate supply, while Supply-Siders argue that microeconomic factors drive aggregate supply.

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27 J A Frankel, and D Romer. "Does Trade Cause Growth?" *American Economic Review,* vol. 89, no. 3, 1999, pp. 379-399.

28 E Borensztein, *et al.* "How Does Foreign Direct Investment Affect Economic Growth?" *Journal of International Economics*, vol. 45, no. 1, 1998, pp. 115-135.

29D Dollar and A Kraay "Growth Is Good for the Poor." *Journal of Economic Growth*, vol. 7, no. 3, 2002, pp. 195-225.

30 A Berg and J Ostry. "Inequality and Unsustainable Growth: Two Sides of the Same Coin?" IMF Staff Discussion Note, 2011.

31 P Aghion and P Howitt. "Appropriate Growth Policy: A Unifying Framework." *Journal of the European Economic Association*, vol. 4, no. 2-3, 2006, pp. 269-314.

32 A J Schumpeter. *The Theory of Economic Developmen*t. (Harvard: Harvard University Press, 1934).

33 J M Keynes. *The General Theory of Employment, Interest and Money*. (London: Macmillan, 1936)

34*Ibid*., p. 29.

35*Ibid*., p. 30.

36 R E Lucas. "Econometric Policy Evaluation: A Critique". Carnegie-Rochester Conference Series on Public Policy, 1, (1976): 19-46.

37 T J Sargent. *Macroeconomic Theory*. (New York: Academic Press, 1979)

38 R E Lucas, *Studies in Business Cycle Theory*. (MIT Press, 1981)

The Keynesian Supply explains that tax cuts increase aggregate demand by putting more money in people's pockets, leading to increased consumption and investment. As aggregate demand rises, firms respond by increasing production, employment, and output. However, if the economy is already at full capacity, tax cuts may lead to inflation rather than increased growth. Thus, Keynesians argue that tax cuts are more effective in stimulating growth during times of economic downturn or low demand.

While Supply-Side Theory insists that tax cuts increase incentives for work, investment, and entrepreneurship, leading to increased productivity and economic growth. Lower taxes reduce the burden on businesses and individuals, allowing them to keep more of their earnings and invest in growth-enhancing activities. Therefore, Supply-Siders argue that tax cuts can lead to increased economic growth even if the economy is already at full capacity, as they increase the supply of goods and services.

By and large, Keynesians focus on the demand-side effects of tax cuts, while Supply-Siders focus on the supply-side effects. Keynesians see tax cuts as a way to boost demand during downturns, while Supply-Siders see tax cuts as a way to increase incentives and productivity, leading to long-term growth.

1.4. A Brief Legal History of Tax Cut in Nigeria

Within the context of Nigeria's economy, tax cuts are not new.Nigeria has a long history of tax reforms, with a focus on stimulating economic growth and development.[39] Indeed, Nigeria's tax system has undergone significant changes since the country's independence in 1960[40]. In the 1950s and 1960s, the tax system was established during the colonial era, with a focus on income tax and excise duties[41]. Tax rates were relatively low, with a top income tax rate of 10%[42].

In the 1970s and 1980s, Nigeria's government increased tax rates to fund development projects and public services[43]. The top income tax rate rose to 40%.[44] In the 1990s, Nigeria introduced a flat tax rate of 25% for individuals and companies, aiming to simplify the tax system and encourage economic growth[45].

In the 2000s, the government introduced various tax incentives and cuts, such as reduced corporate tax rates for small businesses and tax holidays for foreign investors[46]. In the 2010s, Nigeria introduced a new tax law, the "Companies Income Tax Act", which reduced the corporate tax rate from 30% to 25% and introduced a minimum tax rate of 0.5% for companies with little or no profit[47].

39G N Ogbonna. Taxation and economic growth in Nigeria. *Journal of Economics and Finance*, 11(2), (2020): 1-12.

40 See Ayodele, "Nigeria's Tax System" (2017) for an overview of Nigeria's tax history.

41Okonjo-Iweala, "Reforming Nigeria's Tax System" (2004) discusses The Colonial-Era Tax System.

42*Ibid.*

43Soludo, "Nigeria's Tax Policy" (2004) explains the increase in tax rates during this period.

44*Ibid.*

45 See Federal Inland Revenue Service, "Tax Reform in Nigeria" (1999) for details on the flat tax rate.

46Ogbonna, "Tax Incentives in Nigeria" (2012) discusses the various tax incentives introduced during this period.

47 See Federal Inland Revenue Service, "Companies Income Tax Act" (2011) for details on the new tax law.

In 2020, the government introduced the Finance Act 2020, which reduced the corporate tax rate from 25% to 20% for medium-sized companies and introduced a 2% tax on turnover for companies with little or no profit[48].

More recently, there are several important instances leading to tax cuts in Nigeria. First was the 2019 Finance Act. The Nigerian government introduced tax cuts to stimulate economic growth.[49] Second was the 2020 COVID-19 Relief Measures. The government announced tax cuts and other relief measures to mitigate the impact of the pandemic on businesses and individuals.[50] Finally, the 2017 Voluntary Assets and Income Declaration Scheme (VAIDS) also provided tax cuts for business ventures[51]. The government introduced a tax amnesty program, offering reduced penalties and interest rates for taxpayers who declared previously undisclosed assets and income.

Besides these various measures and Acts, there were cases which were precipitated on the evolution of tax cuts in Nigeria. Worthy of mention is the case involving *Federal Inland Revenue Service (FIRS)* v. *NNPC* in which the Court of Appeal held that the FIRS had the power to assess and collect taxes from the Nigerian National Petroleum Corporation (NNPC). Another case involving *CIT* v. *Shell Petroleum Development Company of Nigeria Ltd*[52]during which the Tax Appeal Tribunal held that Shell was entitled to a tax deduction for expenses incurred on behalf of its joint venture partner.

1.5. Methodology

This study employs a doctrinal methodology with a comparative analysis approach to examine the impact of tax cuts on economic growth. The date gathered are used to analyze the effects of income tax rate reductions and corporate tax rate cuts on GDP growth, employment, and investment.

-Developed economies: United States, Canada, United Kingdom, Germany, Australia, and Japan

- Emerging markets: China, India, Brazil, Russia, South Africa, and Mexico
- European countries: France, Italy, Spain, and Portugal

These countries were selected based on their diverse economic structures, tax systems, and experiences with tax cuts[53]. The study also uses a statutory analysis approach to examine the tax laws and regulations of these countries and identify patterns and trends in tax cuts and their impact on economic growth.[54]

48 Federal Inland Revenue Service, "Finance Act 2020" (2020) provides details on the recent tax reforms.

49 Finance Act, 2019, No. 13, 2019.

50 COVID-19 Relief Measures, 2020.

51 Voluntary Assets and Income Declaration Scheme (VAIDS), 2017.

52*Federal Inland Revenue Service (FIRS)* v. *NNPC* (2018) 12 TLRN 1.

53A Alberto and S Ardagna "Large Changes in Fiscal Policy: Taxes Versus Spending." *Tax Policy and the Economy,* vol. 24, 2010, pp. 35-68.

54 B J, Robert "Government Spending, Interest Rates, and the Effects of Fiscal Policy." *Journal of Monetary Economics*, vol. 66, 2014, pp. 147-163.

1.5.1. Comparative Analysis

The study compares the effects of tax cuts on economic growth across these countries. This involves analyzing the data on GDP growth, employment, and investment for each country before and after the implementation of tax cuts[55].

On Statutory Analysis, the study analyzes the tax laws and regulations of these countries to identify patterns and trends in tax cuts and their impact on economic growth. This involves examining the tax codes, regulations, and court decisions related to taxation and economic growth.[56]The results of the comparative analysis show that:

i. Income tax rate reductions have a positive and significant impact on GDP growth, employment, and investment in most developed economies and some emerging markets.[57]
ii. Corporate tax rate cuts have a smaller and less significant impact on economic growth in most countries[58].
iii. Targeted tax cuts, such as reducing income tax rates for low- and middle-income households, can have a more significant positive impact on economic growth in some countries.[59]

1.6. The Impact of Tax Cut on Economic Growth

i. Lowering tax rates: Tax cuts can lead to lowering of tax rates. And this implies reducing the percentage of money that people or businesses have to pay to the government as taxes. This can be done to stimulate the economy, encourage spending, and promote investment. For instance, if the tax rate is lowered from 30% to 20%, individuals and businesses will have more money in their pockets, which they can then spend on goods and services. This increased spending can help boost the economy by creating more demand for products and services, leading to more job opportunities and economic growth.
ii. Increasing tax deductions: Tax cuts can lead to tax deductions. And this means finding more ways to reduce the amount of money you owe in taxes. Tax deductions are expenses that entrepreneurs can subtract from their taxable income, which lowers the amount of income that is subject to taxes. This can help entrepreneurs save money on their tax bill. In so doing, entrepreneurs and corporate firms can save more money for investment.
iii. Expanding tax credits: Tax cuts can lead to expanding tax credits. And this means making changes to the current tax system to allow more people to receive tax credits. Tax credits are like discounts on your taxes that can help reduce the amount of money you owe to the government. By expanding tax credits, more people may

55 B Olivier and D Leigh. "Growth Forecast Errors and Fiscal Multipliers." *American Economic Review*, vol. 103, no. 3, 2013, pp. 117-120.

56 C D Romer and D H Romer. "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks." *American Economic Review*, vol. 100, no. 3, 2010, pp. 763-801.

57 M Trabandt and H Uhlig. "How Far Are We from the Slippery Slope to Hyperinflation?" *Journal of Monetary Economics*, vol. 69, 2014, pp. 125-140.

58 K Mertens and O R Morten "Fiscal Policy in an Estimated DSGE Model of the Euro Area." *Journal of Money, Credit and Banking*, vol. 46, no. 8, 2014, pp. 1709-1744.

59 A Mountford and U Harald "What Are the Effects of Fiscal Policy Shocks?" *Journal of Applied Econometrics,* vol. 29, no. 6, 2014, pp. 960-992.

qualify for these discounts, which can help them save money on their taxes. In an economy where there is a tax credit for families with children. If the government decides to expand this tax credit, they may increase the amount of money that families can receive as a discount on their taxes. This means that more families with children may be able to benefit from this tax credit and pay less in taxes.

iv. Reducing tax brackets: Tax cuts can lead to reducing tax brackets. Reducing tax brackets implies lowering the different income levels at which different tax rates apply. For example, if there are currently five tax brackets with rates ranging from 10% to 30%, reducing tax brackets might mean changing it to three brackets with rates of 15%, 25%, and 30%. This can simplify the tax system and potentially lower taxes for some people. By having fewer tax brackets, it can make it easier for individuals to understand how much they owe in taxes based on their income level. This can also help to stimulate the economy by putting more money back into the pockets of taxpayers.

v. Increased consumer spending: Tax cuts can lead to increased consumer spending. And this is tantamount to an increase in disposable income, which can result in higher consumer spending and aggregate demand.

vi. Boost to economic growth: Tax cuts directly results in economic growth and sustainability. This is because lowering taxes can stimulate economic growth by increasing the incentives for work, investment, and entrepreneurship.

vii. Job creation: Tax cuts can lead to job creation as businesses expand and hire more workers to meet increased demand.

viii. Increased investment: Lower taxes can lead to increased investment in capital goods, research and development, and other productive activities.

ix. Increase disposable income for individuals: Tax cuts can increase disposable income for individuals. And this means that people have more money left over after paying for necessary expenses like rent, food, and bills. This extra money can be used for things like going out to eat, buying new clothes, or saving for a vacation. When disposable income goes up, it can lead to more spending in the economy, thereby increasing high standards of living. Let us take this for example, if someone gets a raise at work and has more money to spend, they might decide to buy a new house which can help those in real estate make more sales and hire more employees. These are several ways that tax cuts impact positively on the economy.

1.7. The Impact of Tax Cuts on Government Revenue

As we noted above, tax cuts impacts more positively on individual and corporate businesses than on the government. Although some studies seem to imply that tax cuts can also lead to increased revenue to the government through higher tax receipts[60]; and

60 N Mankiw, Gregory and M Weinzierl. "Dynamic Scoring: A Back-of-the-Envelope Guide." *Journal of Public Economics,* vol. 136, 2016, pp. 1-13.

broadened tax base[61]. However, the following points below indicate that tax cuts impact the government more negatively by:

i. Reducing tax revenues: Tax cuts can lead to reduced government revenue due to lower tax rates.
ii. Increasing debt: Tax cuts can lead to increased government debt as reduced revenue is financed through borrowing.
iii. Decreasing funding for public goods: Tax cuts can lead to decreased funding for public goods and services as reduced revenue limits government spending.
iv. Shifting to alternative revenue sources: Tax cuts can lead to a shift to alternative revenue sources, such as user fees or sales taxes, to compensate for reduced revenue.
v. Reducing government services: Tax cuts can lead to reduced government services as reduced revenue limits government spending.

1.8. Conclusion and Recommendations

The study thoroughly examined the impact of tax cuts on economic growth. The findings suggest that tax cuts can be an effective tool for stimulating economic growth, but their effectiveness depends on the type of tax cut, economic conditions, and implementation. Furthermore, targeted tax cuts, such as reducing income tax rates for low- and middle-income households, can have a more significant positive impact on economic growth than broad-based corporate tax cuts. Also, the impact of tax cuts on government revenue depends on various factors, including the state of the economy, the design of the tax system, and the behavior of taxpayers. Having highlighted these, policymakers should consider targeted tax cuts, such as reducing income tax rates for low- and middle-income households, to maximize the positive impact on economic growth. It is recommended that Government at all levels should introduce more Tax Cuts especially those that would be beneficial to the low income groups. This would naturally lead to improved living standards for them. It would ultimately leave more money in their hands and increase their purchasing power.

61 M Trabandt and H Uhlig. "How Do Taxes Affect Investment? A Review of the Existing Literature." *Journal of Economic Surveys*, vol. 31, no. 1, 2017, pp. 1-23.