BENEFIITS OF TAX CUTS IN DIFFERENT COUNTRIES

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ABSTRACT:

This article explores benefits of tax cuts in all countries such as USA, Bulgaria, Hungary and Ireland. Tax cuts can provide several economic and social benefits, depending on how they are structured and implemented. In addition, the effectiveness of tax cuts depends on factors such as existing tax rates, economic conditions, and government budget constraints. This article helps you see the benefits of tax cuts in mentioned countries. It helps in understanding beneficial effects of tax cuts and it's reasons.

INTRODUCTION. Taxation is key to a nation's economy and money balance. It gives governments money for services, roads, and programs. Each nation's tax system helps grow the economy and aid the public. Tax rules vary across nations. In the USA, taxes pay for health, schools, and defense. Taxes can also help the economy grow through tax cuts.

Bulgaria demonstrates one of the lowest corporate and personal income tax rates in Europe, bringing foreign investment and imroving business growth. This attracts foreign money and helps businesses expand. Hungary's corporate tax rate is the lowest in Europe. This makes it a good place for global companies. Ireland is known for its low corporate tax rate. It has become a world business center. This brings in foreign investment and helps the economy grow.

Looking at these countries shows how taxes affect the economy. Tax choices impact investment and money well-being. Nations must balance taxes to fund services and promote growth. For example, the USA uses taxes for defense and research. These investments help the nation stay safe and competitive. Nations often change tax rules to meet their goals. They may lower taxes to attract businesses. They may raise taxes to fund public programs. The best tax system helps both the economy and people.

Introduction

Tax policy strongly shapes how the economy grows. It affects investments and spending. Tax cuts are often used to help the economy. They give people more money. More money may lead to more spending. Businesses might grow if people spend more. Investors might be attracted to growing businesses. Lower taxes could cause the economy to make more goods and services. This can lead to more jobs. People might feel better about their money.

Some people think tax cuts are a good idea. Others doubt if they really work. Tax cuts might not help government income over time. They could make income inequality worse. Tax cuts might harm the government's finances long term. In 2001, the US cut income taxes. The goal was to boost the economy after it slowed down. Some think the tax cuts helped businesses grow. Others worry about the impact on the national debt. Experts still argue about whether those tax cuts were worth it.

This review looks at research on tax cuts. It studies how they affect the economy. It examines their impact on growth, jobs, spending, and business investments. By studying research, we can better understand how tax cuts help the economy. We can learn when they work best. We can see what makes them succeed the most.

1. The Impact of Tax Cuts on Economic Growth and Investment

Tax cuts fundamental for countries. They help accelerate the economy and excel people’s financial lives. Tax cuts let individuals and businesses keep more money. This extra cash can lead to more spending and investment. These actions can create jobs. Tax cuts are often praised for boosting economic activity. Lower taxes let businesses grow. People tend to spend more when they have more money. This can lead to broad economic growth. For example, a small business might hire more workers. They could also invest in new equipment if their tax burden is lower.

Tax cuts can also make a country more attractive to global investors. Lower taxes can draw foreign investment. They can also reduce the temptation to avoid taxes. The actual effect of tax cuts varies. Government spending and general economic health play crucial role. Understand the situation when the economy is already doing well. In this case, tax cuts might fuel inflation. If the economy is struggling, they might offer a needed boost.

Understanding tax cuts is essential. They shape a country's financial health and economic growth. For example, consider Sweden's tax policies. They aim to balance economic growth and social welfare. By studying these policies, we can learn how tax cuts work. This knowledge helps evaluate their effect on a nation's financial future.

2.Effects of tax cuts in USA

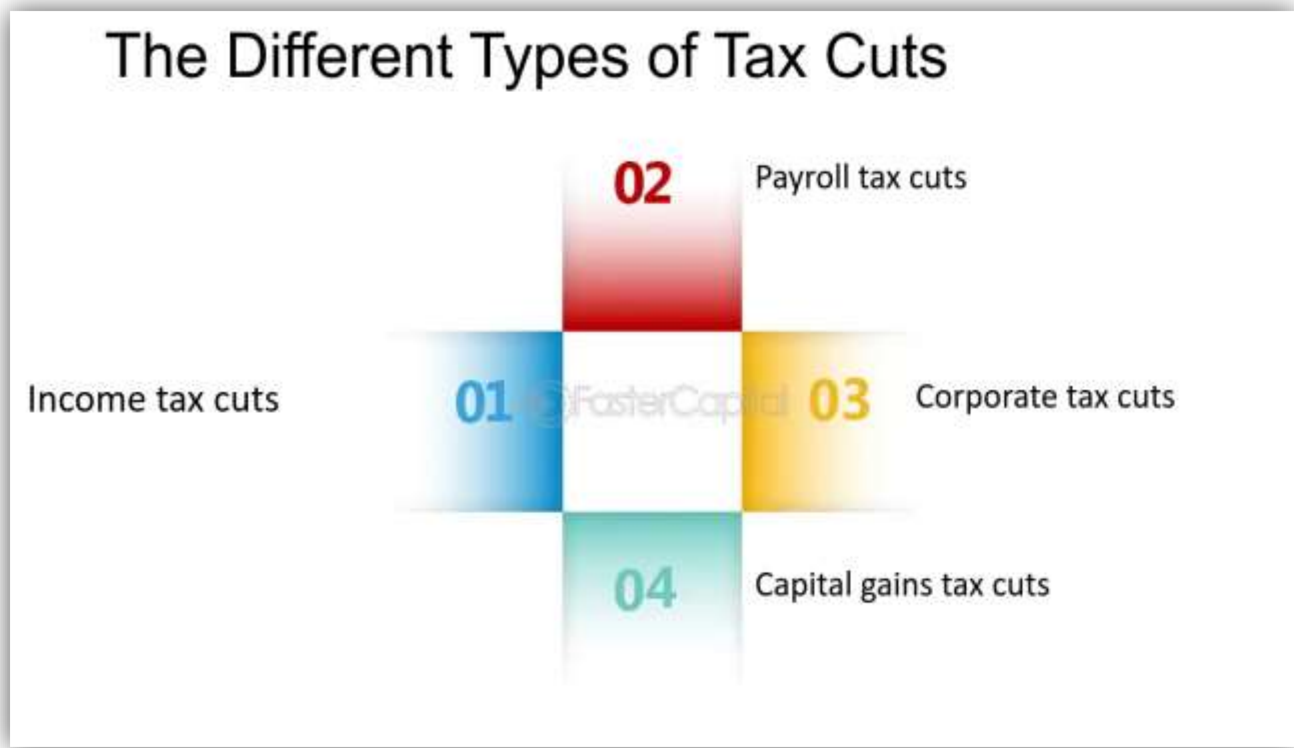
U.S. lawmakers getting ready to rewrite the nation's tax code have a fundamental question to answer: What are the priorities for tax reform? Do you want faster growth? Less income inequality? A tax cut that doesn't increase the budget deficit? In a recent working paper we find that, depending on how a tax cut is targeted, it is possible to make some progress toward the first two objectives. Personal income tax cuts can help support growth and, if well targeted, can also help improve income distribution. However, we find that lowering personal income tax rates does not raise growth enough to offset the revenue loss that is caused by the tax cut itself.

The tax reform debate is unfolding, with the U.S. economy in one of its longest expansions in history. In the medium term, though, growth prospects are constrained by weak productivity growth, falling labor force participation, increasingly polarized income distribution, and high levels of poverty. These trends have reduced the labor share of national income by about 5 percent in 15 years, have shrunk the middle class to the smallest share of the population in 30 years, and—aside from the immediate aftermath of the financial crisis—have resulted in the lowest potential growth rate since the 1940s.

Finding solutions to these issues requires action in multiple areas, among them trade, education, and health. In the latest economic assessment of the U.S. economy , the IMF and U.S. authorities have also mentioned tax policy as an important lever. Our paper looks more closely at the notion that tax reforms—and individual income tax cuts in particular—can go a long way in solving these challenges.

3.Types of tax cuts

Tax cuts are typically cuts in the tax rate. However, other tax changes that reduce the amount of tax can be seen as tax cuts. These include deductions, credits, exemptions, and adjustments. Additionally, adjusting tax brackets may indirectly reduce the amount of income that is subjected to higher tax rates.



The image breaks down "The Different Types of Tax Cuts." It uses a cross shape split into four parts. Each part shows a different type of tax cut. The middle of the cross has a "FasterCapital" watermark. This design makes it easy to see the different tax cuts.

Income tax cuts (01) are on the left and colored blue. These cuts lower taxes on what people earn. This means people have more money to spend. More spending can help the economy grow. Examples include lower tax rates or bigger standard deductions. Tax credits also fit in this category.

Payroll tax cuts (02) are at the top and colored red. Payroll taxes fund programs like Social Security and Medicare. Cutting these taxes gives workers more take-home pay. It also lowers employer costs, which might lead to more jobs. A temporary break from payroll taxes is one example. Another is lowering what employers and employees pay.

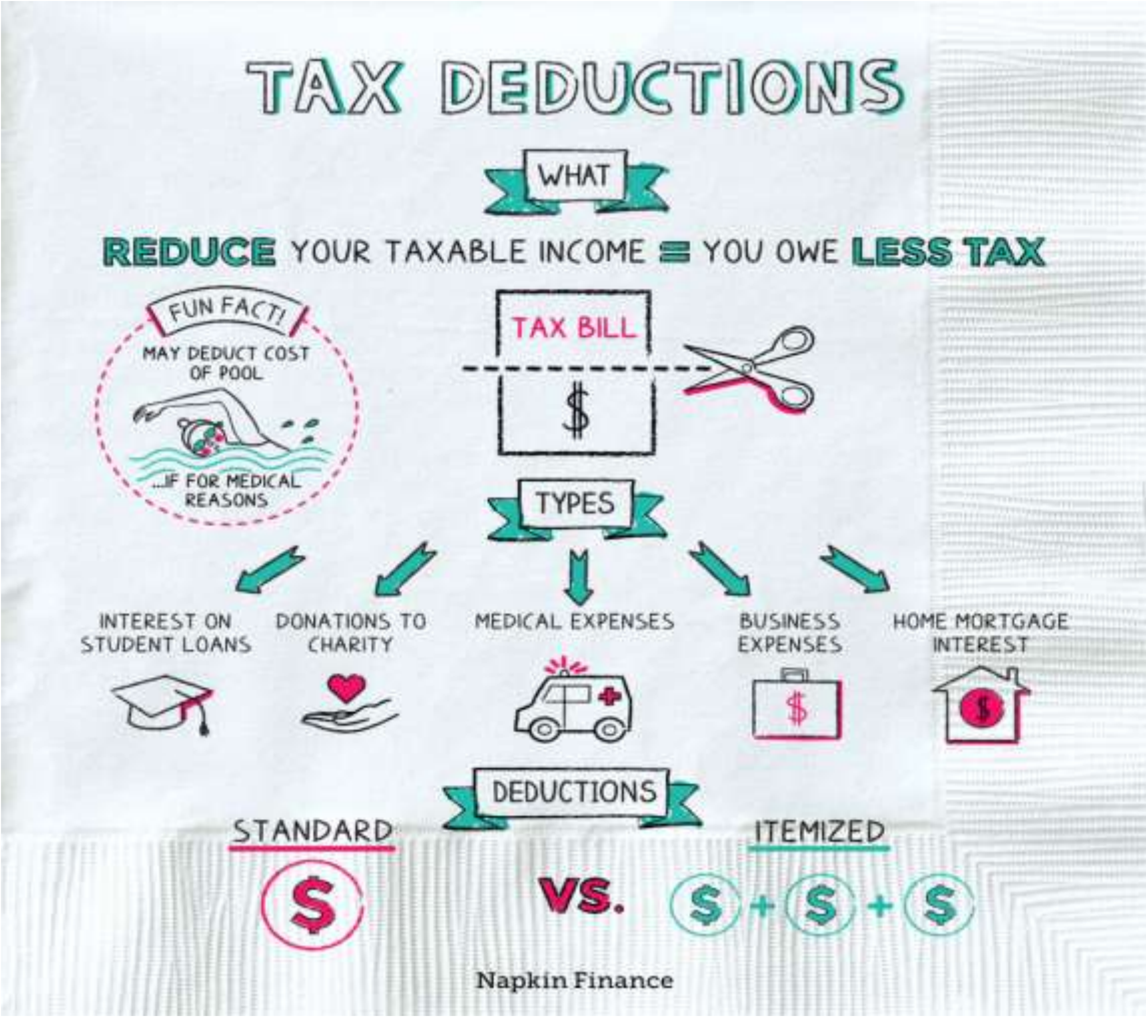
Corporate tax cuts (03) are on the right and colored yellow. These cuts lower taxes on business profits. This can encourage businesses to invest and grow. They may hire more people, too. A lower corporate tax rate is a key example. Businesses might also get bigger deductions or credits.

Capital gains tax cuts (04) are at the bottom and colored green. These cuts lower taxes on investment profits. Investments include stocks, bonds, and real estate. Lowering these taxes can boost investment. This, in turn, can help the economy and create wealth. Examples include lower rates on long-term gains. Some investments might even be tax-free.

Each tax cut type impacts people, businesses, and the economy. The effects can change based on how the cuts are set up. The economy's condition also matters.

4.Tax deduction and it's types

A tax deduction allows taxpayers to subtract certain deductible expenses and other items to reduce how much of their income is taxed, which reduces how much tax they owe. For individuals, some deductions are available to all taxpayers, while others are reserved only for taxpayers who itemize. For businesses, most business expenses are fully and immediately deductible in the year they occur, but others, particularly for capital investment and research and development (R&D), must be deducted over time.



“Few of us ever test our powers of deduction, except when filling out an income tax form.“

- Laurence J. Peter

The infographic, "Tax Deductions," by Napkin Finance, visually breaks down tax deductions. It shows what they are, how they work, and the different kinds of deductions. Tax deductions lower your taxable income. This, in turn, reduces the amount of tax you owe. The image shows a pair of scissors cutting a tax bill. This represents how deductions cut down your tax liability.

A fun fact includes a person swimming. The note says you might deduct the cost of a pool. But, this is only if it's needed for medical reasons. This points out some less common expenses can be deductions under certain rules. The infographic lists five common types of deductions, each paired with an icon. Interest paid on student loans is one, shown with a graduation cap icon. Donations to charity is another, with a hand holding a heart icon. Medical expenses, shown with an ambulance icon, can also be deducted. Business expenses, paired with a briefcase and dollar sign, are included. Finally, home mortgage interest, shown with a house and dollar sign, may qualify.

There are standard and itemized deductions. The standard deduction is a fixed amount for all taxpayers. It's shown with a single dollar sign ($). Itemized deductions mean listing out specific expenses. This is instead of taking the standard fixed amount. It's represented by multiple dollar signs ($ + $ + $). The image uses a hand-drawn sketch style. This makes complex tax ideas easy to grasp. Green, red, and black are the main colors. These colors help separate the different parts. This infographic simplifies tax deductions for everyone. It makes it easier to understand and informative.

5. Information of tax cuts in the USA, Bulgaria, Hungary, and Ireland

United States (USA)

Overview

The U.S. has often cut taxes to help the economy grow. These cuts aim to get businesses to invest more. They also give people extra money.

Notable Tax Cuts

The Tax Cuts and Jobs Act (TCJA) passed in 2017. It made big changes to the tax system. The corporate tax rate went from 35% to 21%. This meant companies paid less tax on their profits. People also saw their income tax rates go down. The amount people could deduct as a standard deduction increased. The child tax credit doubled, giving families more money for each child. The TCJA also limited how much people could deduct for state and local taxes (SALT). This especially affected people in states with high taxes.

Sometimes, the U.S. cuts payroll taxes for a short time. This puts more money in workers' paychecks right away. In 2020, during COVID-19, there was a payroll tax deferral. Workers could put off paying some of their payroll taxes.

Capital Gains and Dividend Tax Cuts

Taxes on capital gains and dividends have been cut in the past. The Bush tax cuts in 2001 and 2003 lowered these taxes. People still talk about cutting them more to encourage investment.

Tax cuts have helped corporate profits and investment increase. But, they have also increased federal deficits. This is because the government collects less tax money. Experts disagree on how much tax cuts help the economy. Some say they mostly benefit people with high incomes.

Bulgaria has a simple tax system with low rates. This helps attract businesses and skilled workers. It is one of the most tax-friendly countries in the EU.

In 2008, Bulgaria switched to a flat income tax of 10%. Before, they had a progressive system. The flat tax made Bulgaria more appealing to people and businesses.

The corporate tax rate is also a flat 10%. This is one of the lowest in the EU. It helps businesses save money.

Social Security and Payroll Tax Adjustments

Bulgaria sometimes lowers employer contributions to social security. This makes it cheaper for companies to hire workers.

The low taxes have brought in more foreign investment. They have also encouraged high earners to stay in Bulgaria. Some people think the flat tax helps the rich more than the poor.

Hungary is known for cutting taxes a lot. They changed to a flat tax system. They also cut corporate taxes.

In 2017, Hungary cut the corporate tax to 9%. This is the lowest in the EU. Many international businesses have invested there because of this.

Hungary has a 15% flat income tax rate. Before, the tax system was progressive. This has lowered the tax burden on workers. But the government now collects less money.

Families with kids get extra tax breaks. This is to try and encourage people to have more children. Employers pay less in social contributions now. This helps businesses save money.

Hungary is now a more attractive place for businesses. People have more money to spend. Some worry that flat taxes are not fair. They may make income inequality worse.

Ireland has cut taxes to become a global business center. Many tech and drug companies have moved there.

Ireland has a very low corporate tax rate. This has attracted companies like Apple, Google, and Facebook. It has been important for Ireland’s economy.

Special Tax Regimes for Multinationals

In the past, Ireland had tax loopholes like the "Double Irish". These helped companies lower their taxes. These loopholes are now being phased out.

Personal Income Tax Adjustments

Ireland often makes small changes to income tax brackets. They also increase tax credits.

During COVID-19, Ireland lowered VAT taxes for a short time. They also gave payroll tax subsidies to businesses.

Ireland has attracted a lot of foreign investment. It is now a major hub for big companies. Some worry that companies are avoiding taxes in Ireland. This has led to pressure to change the tax policies.

6.Conclusion

Tax cuts have changed the economic position of the USA, Hungary, Bulgaria, and Ireland. Each country has used them to meet different capital and business goals. The USA passed tax cuts like the 2017 Tax Cuts and Jobs Act. This act lowered taxes for businesses and people. The goal was to get businesses to spend more money. Lawmakers hoped people would also waste more, growing the economy. This tax cut has increased the country's debt. Hungary and Bulgaria both chose flat tax systems. They lowered taxes for companies and people. This made taxes simpler and drew in business. More business activity happened. This also made them more competitive in Europe. Ireland has a low corporate tax rate of 12.5%. It has attracted many global companies like Apple and Google. Foreign investment has greatly increased because of this rate.

Tax cuts can supports the economy grow. They can also increase investment and create jobs. But, their long-term success connects on balancing income and government spending. Tax cuts have exceled economic activity in these four countries. They have also caused worries about income differences. People wonder about long-term money balance. The effect on public services also matters. How well tax cuts match economic plans and conditions is key. This illustrates growth that includes everyone and lasts. For example, tax cuts that mainly help the rich could increase inequality. If governments cut spending too much, public services could suffer. Roads, schools, and healthcare could get worse. Good tax policy needs a broad view. It must consider all parts of the economy and society. It needs to consider everyone.

Discussion

Lower taxes can raise people’s income. They can also help create more jobs. Tax cuts can increase income inequality. They can also create worries about government debt. Countries must balance tax cuts with public services. They need enough money for schools and roads. The success of tax cuts depends on the economy. It also depends on how taxes are set up. Long-term financial plans are key. These plans ensure growth is steady. This approach avoids too much debt or inequality.

Average Tax Cuts to Each Income Group Compared to Extending 2017 Tax Provisions with the $10,000 Cap on SALT Deductions Unchanged

Effects of changes in 2026

			Version of Cap on SALT Deductions				
Income Group	Income Range	Average Income	$10,000 cap (unchanged)	$10,000/ $20,000 cap	$10,000/ $20,000 cap if AGI <$500,000	$100,000/ $200,000 cap	No Cap
Poorest 20%	$0 - $28,600	$16,200	$0	$0	$0	$0	$0
Second 20%	$28,600 - $55,100	$41,300	$0	$0	$0	$0	$0
Third 20%	$55,100 - $94,100	$72,800	$0	$0	$0	-$40	-$30
Fourth 20%	$94,100 - $157,500	$124,500	$0	-$10	-$10	-$130	-$120
Next 15%	$157,500 - $360,000	$220,000	$0	-$150	-$150	-$720	-$710
Next 4%	$360,000 - $914,900	$531,000	$0	-$950	-$540	-$4,330	-$4,290
Richest 1%	$914,900 and above	$2,963,400	$0	-$2,010	-$10	-$22,460	-$34,830
ALL		**$130,600**	**$0**	**-$80**	**-$50**	**-$530**	**-$650**

Source: Institute on Taxation and Economic Policy, January 2025

Institute on Taxation and Economic Policy | ITEP.org

This table shows the average tax cuts for different income groups in 2026 under various situations regarding the State and Local Tax (SALT) deduction cap, based on an analysis by the Institute on Taxation and Economic Policy

Key Elements of the Table:

1. Income Groups & Ranges – The table consists of taxpayers into different groups based on income, beggining from the poorest 20% (earning $0 - $28,600) to the richest 1% (earning $914,900 and above).
2. Average Income – Shows the mean income for each group.
3. Tax Cut Scenarios – Compares different potential fluctuations to the SALT deduction cap:

a. $10,000 cap (not changed) – No difference from current policy.
b. $10,000/$20,000 cap – broadening the cap.
c. $10,000/$20,000 cap if AGI <$500,000 – Raising the cap but with limitations based on adjusted gross income.
d. $100,000/$200,000 cap – Raising the cap dramatically.
e. No Cap – Removing the cap entirely.

Observations:

- Lower-income groups (bottom 60%) receive no tax cuts under any situation.

- Middle-income earners (fourth 20%) see small reductions in taxes under higher SALT cap situation.
- Higher-income groups (next 15%, next 4%, and richest 1%) benefit the most from loosening or eliminating the SALT cap.
- The richest 1% sees the largest tax reduction ($34,830 under no cap), showing that SALT cap changes primarily benefit high-income earners.
- Overall impact – Removing the SALT cap entirely results in an average tax cut of $650 per taxpayer, while minor adjustments lead to much smaller benefits.

Conclusion of table

The analysis provides that eradicating or increasing the SALT deduction cap dramatically benefits the wealthiest taxpayers, while lower- and middle-income groups see minimal to no benefit. This aligns with policy debates on whether changes to SALT deductions disproportionately aid higher-income individuals.

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