9th International Conference on Advanced Research in
Management, Business and Finance

Prague, Czech Republic
19 - 21 September 2025

An Analysis of the Economic Consequences of Tax Reductions

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Abstract

Tax cuts can have significant effects on the economy, influencing various aspects such as consumer spending, government revenue, and overall economic growth. This study explores the economic implications of tax reductions in the United States, with a particular emphasis on their effects on GDP per capita. It seeks to elucidate both the short-term and long-term impacts of tax cuts on economic growth, income distribution, and macroeconomic stability, while accounting for the influence of savings, government expenditure, and trade openness. Utilizing time series data spanning from 1960 to 2023, the analysis employs unit root tests, multicollinearity diagnostics, and asymmetry analysis within an Auto Regressive Distributed Lag framework to examine the dynamic interactions between tax rates and economic growth. The findings indicate a statistically significant, non-linear relationship between tax rates and economic growth, suggesting diminishing returns from substantial tax cuts. While moderate tax reductions appear to foster economic expansion, overly aggressive cuts may prove counterproductive.

Keywords: Economic Growth, GDP per Capita, Tax, Economic Impact, Time Series Analysis