What is Tax buoyancy and Tax Elasticity?

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What is Tax buoyancy?

- Tax buoyancy **explains the relationship between the changes in government's tax revenue growth and the changes in GDP.**
- It refers to the **responsiveness of tax revenue growth to changes in GDP.**
- When a **tax is buoyant, its revenue increases without increasing the tax rate.**
- **It depends upon:**
- the size of the tax base;
- the friendliness of the tax administration;
- the rationality and simplicity of tax rates;

What is Tax Elasticity?

- It refers to **changes in tax revenue in response to changes in tax rate.**
- For example, how tax revenue changes if the government reduces corporate income tax from 30 per cent to 25 per cent indicate tax elasticity.

Elasticity vs Buoyancy:

- **Tax elasticity considers the automatic response of revenues** to the change in income given that tax structure is unchanged.
- On the other hand, **tax buoyancy reflects both the impacts of income and discretionary changes** on revenue earnings.

What is Laffer Curve?

It is an **economic theory** pioneered **by economist Arthur Laffer** suggesting that **tax rates above a certain threshold reduce tax revenue** since they incentivize people not to work. As such, it suggests that l**owering tax rates** motivates people to earn more money, **resulting in greater tax revenue.**

Q1) What is tax base?

A tax base is a total amount of assets or income that can be taxed by a taxing authority, usually by the government. It is used to calculate tax liabilities. This can be in different forms, including income or property.

Source: GST led to high tax buoyancy, augurs well for resource mobilisation: Survey