

Laffer Curve

As Tax Rates go UP the amount of Revenue Increases for each piece. However, the INCENTIVE to Purchase (and Production & Pieces Sold) goes DOWN. So, at some point the Pieces Purchased (and Production) get so low that the Total REVENUE starts going DOWN.

When Tax Rates are LOWERED the Incentive to Purchase INCREASES and therefore, the High Demand also INCREASES the incentive for PRODUCTION. When Tax Rates are INCREASED the incentive to Purchase DECREASES and therefore, the Low Demand also REDUCES the incentive for PRODUCTION.

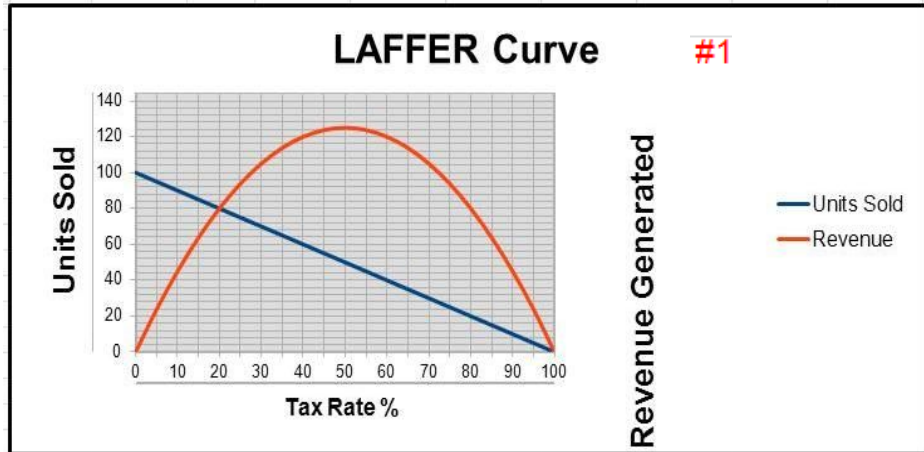
The Tax Rate that produces MAXIMUM Revenue is called the Critical Point, which varies depending upon the Commodity, Price, Society, Taxation type, etc. TOTAL REVENUE goes DOWN when the Tax Rate is either Above or Below the Critical Rate.

There is a point, about half-way between Tax Rate=0 and the Tax Rate Critical Point (that produces Maximum Revenue), called the "Growth Maximizing Point". This is considered optimum – where Taxes are significant enough to raise revenue, are not excessive and still provide sufficient funds for Maximum GROWTH.

This shows the Generic Example – it is NOT Realistic as Units Sold is usually NOT linear and Revenue falls off FAST as the Tax Rate goes UP (see SCENARIO 2).
(Price is \$5.00 each.)

Scenario 1

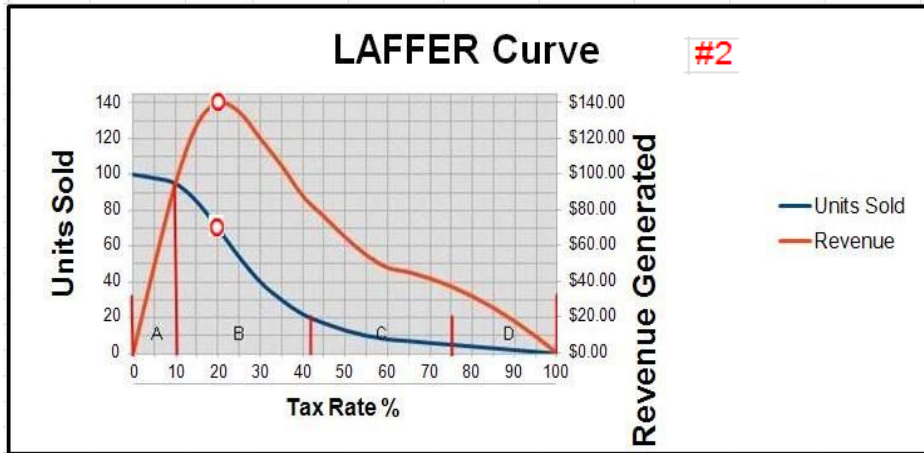
Tax Rate %	Units Sold	Revenue
0	100	\$0.00
5	95	\$23.75
10	90	\$45.00
15	85	\$63.75
20	80	\$80.00
25	75	\$93.75
30	70	\$105.00
35	65	\$113.75
40	60	\$120.00
45	55	\$123.75
50	50	\$125.00
55	45	\$123.75
60	40	\$120.00
65	35	\$113.75
70	30	\$105.00
75	25	\$93.75
80	20	\$80.00
85	15	\$63.75
90	10	\$45.00
95	5	\$23.75
100	0	\$0.00



This scenario is a More REALISTIC - The Units Sold is usually GREAT with LOW Taxes and falls off FAST as the Tax Rate goes UP.

Scenario 2

Tax Rate	Units Sold	Revenue
0	100	\$0.00
5	98	\$49.00
10	95	\$95.00
15	85	\$127.50
20	70	\$140.00
25	54	\$135.00
30	40	\$120.00
35	30	\$105.00
40	22	\$88.00
45	17	\$76.50
50	13	\$65.00
55	10	\$55.00
60	8	\$48.00
65	7	\$45.50
70	6	\$42.00
75	5	\$37.50
80	4	\$32.00
85	3	\$25.50
90	2	\$18.00
95	1	\$9.50
100	0	\$0.00



UNITS SOLD vs. TAX RATE: In this Example (#2) a product sells for \$10 each.

(A) Quantity Sold is little affected by small taxes (say, in this example, it drops from 100 only to 95 at a 10% rate, where tax is \$1 each).

Most people don't care if tax rates are small. REVENUE increases quickly from Zero at No tax, to \$1 each at 10% tax rate (= \$95 Tax Revenue).

(B) Pieces Sold falls quickly after some critical point (here 95 sold at 10% (= \$95 Revenue), it falls to 20 Sold at 42% tax rate (\$4.20 tax = \$84 in Tax Revenue).

The "Growth Maximizing Point" is from 10% Tax Rate up toward 20% - Tax INCREASES here produce more Tax Revenue - until it tops out at 20% Tax Rate.

Most people, and most Sales, fall into this range - where as taxes go up they decide to buy less & less.

(C) In between the limits of (B) is where the MOST Tax Revenue is produced - here 70 were Sold at a 20% (\$2 tax revenue x 70 pcs = \$140 total Tax Revenue).

At a lower tax rate the Sales increased slower than the Tax Rate went up. At a higher tax rate the Sales decreased faster than the Tax Rate increased.

(D) Some sales remain even at high tax rates. It falls from 20 sold at 42% to 5 Sold at 75% tax rate (\$7.50 each in taxes but only 5 pieces = \$37.50 in Revenue).

NOTE: These are usually rich people who want it regardless of the price.

(D) Sales basically disappear at some extreme tax rate. It goes from 5 Sold at 75% to ZERO, or very nearly 0, Sold at 100% tax rate.

Many of these Sales are to people that are NOT YET AWARE that they have to pay such exorbitant tax rates.

The HIGHEST REVENUE, \$140 in this case, fell at a 20% tax rate, where 70 were sold.