Laffer Curve

The Laffer curve

Total rax revenue

0 %   **Tax rate**   **100 %**

Increase in total tax revenue

Decrease in total tax revenue

Marginal and average tax revenue (MTR and ATR)

MTR   ATR

0 %   100 %

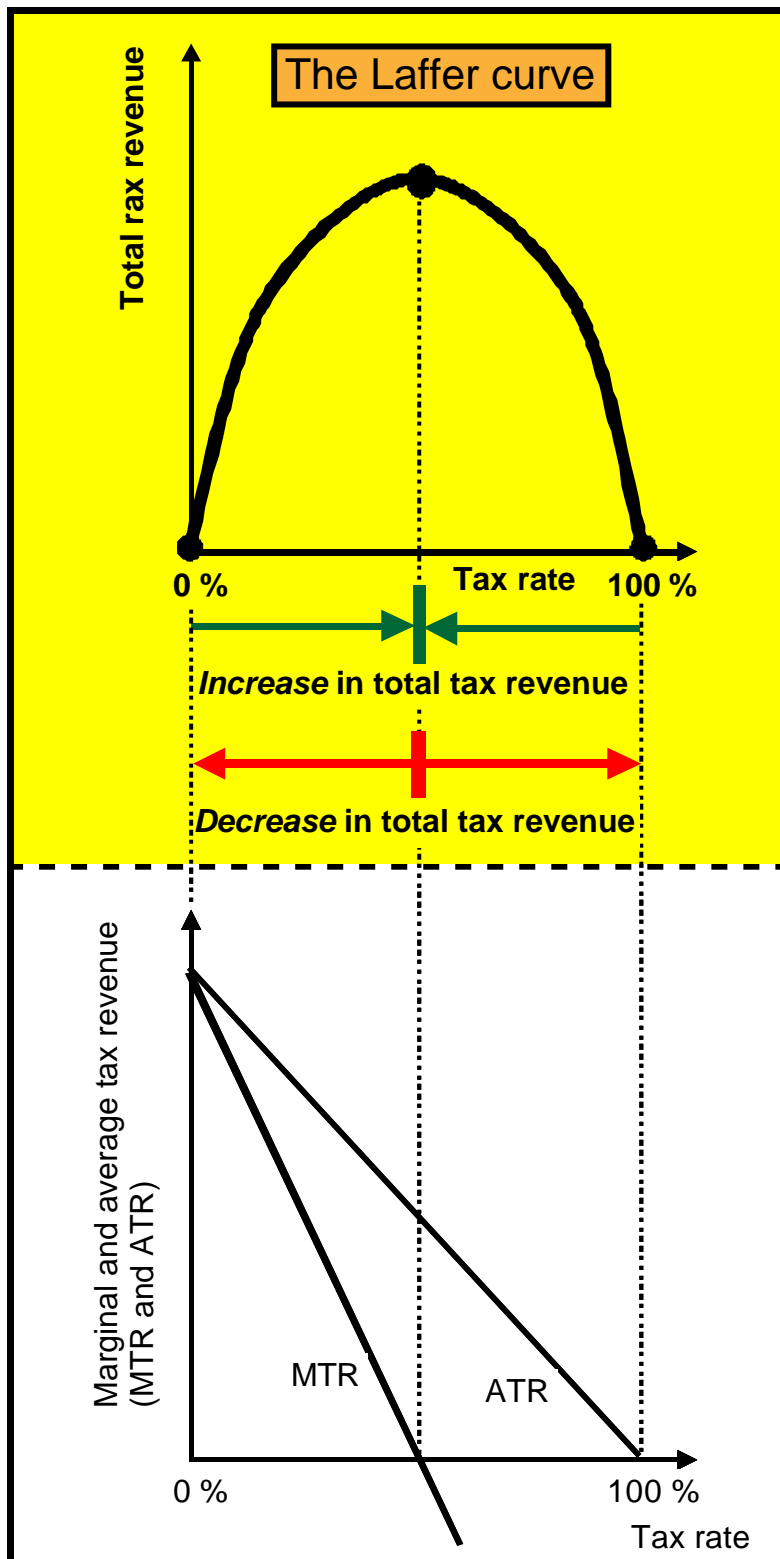Tax rate

- Three points are of special interest: Tax rate 0 %, tax rate 100 %, the peak.

- In the real world, the peak can lie at another point than shown on the left. At the tax rate of 100 %, there will probably be some tax revenue.

- Changing tax rates can result in higher or lower total tax revenue (→ coloured arrows).