

Laffer Curve derivation:

The exercise below is intended to bring out the links between direct tax rates and tax revenue, as well as getting students to understand the tax system.

Instructions:

Give the students the worksheet on income tax rates and let them get on with it. You may need to step in to help with the calculation the first time once everybody has had a go, so that they understand that the higher rate is only paid on some of the income.

After that, there are a variety of useful resources that can be used to support the analysis.

One of the very best is this 10 minute 'making sense' clip, including interviews with Laffer. Well balanced and brings out lots of evaluative points:

http://www.pbs.org/newshour/bb/business-jan-june12-makingsense_01-11/

Other useful links include:

Gerard Depardieu et al:

<http://www.forbes.com/sites/robertwood/2013/12/30/top-french-court-upholds-75-tax-while-footballers-eye-exit/>

BBC Evasion and avoidance explained:

<http://www.bbc.co.uk/news/business-31324023>

Avoidance techniques UK:

<http://www.theguardian.com/business/2011/jan/16/premier-league-footballers-tax-avoidance>

Corporate:

<http://www.bbc.co.uk/news/business-32914372>

Worksheet

Income Tax rates	
Tax rate	Taxable income above your Personal Allowance
Basic rate 20%	£0 to £31,785 People with the standard Personal Allowance start paying this rate on income over £10,600
Higher rate 40%	£31,786 to £150,000 People with the standard Personal Allowance start paying this rate on income over £42,385
Additional rate 45%	Over £150,000

Source: www.gov.uk

These are the current rates of Income Tax in the UK

Imagine you are a very well paid IT consultant with a Gross Salary of £60 000 p.a. With the current tax rates (above), what is your Net Salary?

If the Higher Rate of tax is increased to 60%, what is your Net Salary?

If the Higher Rate of tax is increased to 80%, what is your Net Salary?

If the Higher Rate of tax is increased to 100%, what is your Net Salary?

With this in mind, consider how you would feel if the tax rate started increasing as it does in the scenarios above. Would you start to try and avoid those taxes? Would you leave the country? And if so, what is the level of income tax that would make you do these things?

If other people are thinking the same as you, then try to work out the relationship between tax rate and tax revenue for the Government (below).

