

Graduate Student Seminar in Mathematics

Dr. Tom Baird,
Memorial University

Thursday, January 21, 2016
1:00p.m., HH-3017

Revenue maximizing income tax rates in a federation

Abstract:

There is a limit to how high tax rates can go before they become self defeating. For example, if income tax rates are set at 100%, then people would have no incentive to work in the formal economy and would retreat to the black market to avoid paying the tax. Therefore the income tax rate that maximizes revenue for government is something less than 100%. What is it? In this talk, I will describe a simple economic model for studying income taxes, and derive a formula for the revenue maximizing income tax rate. Then I will show how the model changes when there are two governments (federal and provincial) who set income tax rates independently and may compete for revenue.