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The Khaldun-Laffer Curve Revisited: A Personal Income Tax-Based Analysis for Turkey

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ABSTRACT

The objective of this paper is to revisit as well as empirically examine an old but still discussed postulate, the Khaldun-Laffer curve, on the basis of personal income tax by making use annual time-series data for Turkey for the period 1970-2015. The findings of the paper confirm the validity of the Khaldun-Laffer curve hypothesis. In addition, we infer that the optimal tax rate that maximizes the tax revenue generated from personal income taxation in Turkey is 15.03 percent. This rate is well-below than the current rate which we estimate as 15.37 percent, implying that Turkey's current tax rate for personal income tax takes place in the prohibitive range of the Khaldun-Laffer curve. These findings suggest that the current tax rate should be lowered and to its optimal level to collect more tax revenue. Getting down the current rate to its revenue-maximizing rate not only would it enable the Turkish authorities to collect more revenues with a relatively lower rate, but also would allow them to minimize the substitution effects of personal income tax while maximizing the income revenues from it.

KEYWORDS Tax Policy; Khaldun-Laffer Curve; Laffer Curve; Optimal Tax Rate; Personal Income Tax

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