Worksheet Solutions

Key Terms

regressive tax—A tax that takes a larger percentage of income from low-income groups than from high-income groups.

user fees—An excise tax, often in the form of a license or supplemental charge, levied to fund a public service.

Summary

A **regressive tax** is a fixed amount of money paid by each individual or household. In a regressive tax, the percentage rate decreases as the amount being taxed increases. **User fees** are often considered regressive because they take a larger percentage of income from low-income groups than from high-income groups.

Activity 1

Use the chart below to answer the following questions.

REGRESSIVE TAX ($1,000 per person)		
Income	**Percent of Income Paid in Tax**	**Amount of Tax**
$5,000	20%	$1,000
$10,000	10%	$1,000
$25,000	4%	$1,000
$50,000	2%	$1,000
$100,000	1%	$1,000

a. If this regressive tax were used as an income tax, which group of people would pay the highest percentage rate of taxes and which would pay the lowest?

   Those who made $5,000 would pay the highest percentage (20%) and those who made $100,000 would pay the lowest percentage rate of taxes.

b. Cory works at a fast-food restaurant. He makes $10,000 a year. How much would he take home after paying this regressive income tax? How much would his boss, who makes $25,000, take home?

   $9,000; $24,000

c. Marta was making $45,000. She just got a $5,000 raise. Under the regressive tax shown in the chart, would the share of her income that she pays in taxes increase or decrease? What percent would she be paying after the raise?

   decrease; 2%

Activity 2

Make a chart similar to the one shown above for the tax amount of $3,000. Then answer the questions that follow. (To find the percent of income paid in tax, divide the amount of tax by the income; for example, $3,000 ÷ $50,000 = .06 or 6 percent.)

a. Which income level would suffer most under such a tax? **the lowest**

b. Which income level would hardly notice the loss of $3,000? **the highest**

c. Explain why regressive taxes are not used for income tax purposes. **They unfairly tax lower incomes at a higher rate.**

Activity 3

Do fixed fees have a place in the larger tax system? For example, states require fees for driver's licenses. Is such a fee regressive? Is it fair to all income levels?

On a separate sheet of paper, write a short essay explaining your opinion on this fee placed on drivers. Or, write an essay suggesting an alternative way of collecting a fee from people who seek driver's licenses.

Answers will vary.