Name ________________________ Date __________

Worksheet

Applying Proportional Taxes

Theme 3: Fairness in Taxes
Lesson 4: Proportional Taxes

Key Terms

***flat tax*—**Another term for a proportional tax.
***proportional tax*—**A tax that takes the same percentage of income from all income groups.
***regressive tax*—**A tax that takes a larger percentage of income from low-income groups than from high-income groups.
***sales tax*—**A tax on retail products based on a set percentage of retail cost.

Summary

With a **proportional** or **flat tax**, each individual or household pays the same fixed rate. For example, low-income taxpayers would pay 10 percent, middle-income taxpayers would pay 10 percent, and high-income taxpayers would pay 10 percent. The **sales tax** is an example of a proportional tax because all consumers, regardless of income, pay the same fixed rate. Although individuals are taxed at the same rate, flat taxes can be considered **regressive** because a larger portion of income is taken from those with lower incomes. For example, a 6% sales tax on a $1000 computer ($60) would take a greater portion of a $10,000 income than of a $50,000 income.

Activity 1

Complete the proportional tax chart below. To find the amount of tax, use this formula:
Income × percentage of income paid in tax = amount of tax.
Example: $15,000 × .10 (10%) = $1,500.

PROPORTIONAL TAX		
Income	**Percentage of Income Paid in Tax**	**Amount of Tax**
$5,000	10%	
$10,000	10%	
$25,000	10%	
$50,000	10%	
$100,000	10%	

Activity 2

The Armey-Shelby flat tax proposal is also based on a 17 percent rate. The Armey-Shelby tax, however, applies that rate only on income over $35,400 for a family of four. In other words, if the family made $50,000, they would be taxed on $14,600 ($50,000–$35,400).

1. How is the attempt to exempt a certain amount from the tax a way to make the tax less regressive?

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2. Using the Armey-Shelby tax exemption of $35,400, how much tax would a family of four earning $25,000 pay in taxes?

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Activity 3

The Greens and the Smiths live in a state that has a proportional sales tax. Read the following details about each family. Then, on a separate sheet of paper, write a short essay explaining the regressive effect of this proportional sales tax on each family.

> The Greens, a family of four, earn $20,000 a year and spend 70 percent of their income on taxable consumer goods. The Smiths, also a family of four, earn $200,000 a year, enough to allow them to invest or save 30 percent of their income. They spend only 40 percent of their income on taxable consumer goods.