

# Assessment Solutions

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Theme 4: What Is Taxed and Why  
Lesson 3: Income Tax Facts

## *Part 1*

Match the definitions to their correct key terms. Write the letters of the correct key terms on the lines provided.

### *Answer Key*

- A. horizontal equity
- B. income
- C. pay-as-you-earn system
- D. tax deduction
- E. vertical equity

- B** 1. Many people believe that because of big differences in \_\_\_\_\_, those who earn more should pay a greater share of taxes than those who earn less.
- C** 2. Under this system, an employer makes payments to the IRS for the employee.
- D** 3. An expense that can be deducted before a person calculates taxable income.
- E** 4. According to this principle, low wage earners pay a smaller percentage of their income to taxes than do wealthy taxpayers.
- A** 5. According to this principle, people with the same income pay the same amount in taxes.

## Part 2

Match the description below to the correct key term. Write the letters of the correct key terms on the lines provided.

### Answer Key

- A. pay-as-you-earn system
- B. vertical equity
- C. horizontal equity
- D. tax deduction
- E. charitable contribution

- D 1. Interest paid on a home mortgage
- A 2. Money withheld from weekly paycheck
- C 3. Two workers who earn the same amount and pay the same amount in taxes
- B 4. The Roses earn more than the Smiths and pay nearly three times as much in taxes
- E 5. Money given to the city's animal shelter

## Part 3

Choose which individual or family in each pair would most likely pay lower taxes. Assume that both have the same income and that all other factors are equal. Write the letter of the correct answer in the space provided.

- B 1. Who would pay lower taxes?
  - A. a couple with one child
  - B. a couple with three children
- B 2. Who would pay lower taxes?
  - A. a renter
  - B. a homeowner
- A 3. Who would pay lower taxes?
  - A. an elderly blind man
  - B. a young woman
- A 4. Who would pay lower taxes?
  - A. one who donates money to the church
  - B. one who gives money to a friend
- B 5. Who would pay lower taxes?
  - A. a single person with no children
  - B. a working mother with a child in daycare