

Worksheet Solutions

Tax Fairness

Theme 3: Fairness in Taxes Lesson 1: How to Measure Fairness

Key Terms

ability to pay—A concept of tax fairness that states that people with different amounts of wealth or different amounts of income should pay tax at different rates. Wealth includes assets such as houses, cars, stocks, bonds, and savings accounts. Income includes wages, interest and dividends, and other payments.

benefits received—A concept of tax fairness that states that people should pay taxes in proportion to the benefits they receive from government goods and services.

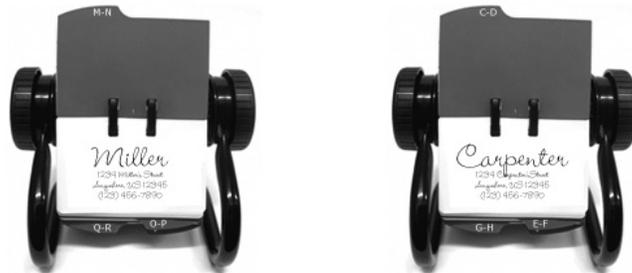
Summary

Two criterion used to measure fairness in taxes are **benefits received** and **ability to pay**. According to the benefits received principle, those who receive or benefit from public services should pay for them. People who use a toll road should pay the toll. People who use a park should pay the park fees. Some taxes work this way. It is not always easy to figure out the benefits different people receive from some public services, such as national defense.

Some people have higher incomes or more possessions than others. Under the ability to pay principle, these people pay more in taxes because they can afford to pay more.

Activity 1

Examine the chart below and answer the following questions on the lines provided.



A Tale of Two Families		
	Millers	Carpenters
Personal	Husband and wife both retired teachers	Young couple, 3 children; husband is a factory worker; wife has evening paper route
Home	own home	rent home
Income	\$40,000	\$25,000
Income Tax	\$2,000	\$1,250
Gas Tax	\$100	\$350
Property Tax	\$1,000	no direct property tax

1. Is it fair that the Millers pay more income tax than the Carpenters?

According to the ability-to-pay criteria, it appears fair that the Millers, with a larger income, pay a larger amount of tax than the Carpenters. However, the Carpenters, with three young children, may find their lower tax more difficult to pay.

2. Is it fair that the Carpenters pay much more gas tax than the Millers do?

Yes. Part of the Carpenters' income comes from the paper route; this requires the use of gas and roads.

3. Is it fair that the Millers, with no children, pay property tax to support schools and the Carpenters, who have three children, pay no direct property tax at all?

If the schools are well supported, presumably graduates will be better educated, get good jobs, and pay into the Social Security system, which helps to support the Millers. All citizens benefit indirectly from having a well-educated population. Also, the Carpenters may pay property taxes indirectly because part of their rent goes toward paying their landlord's property tax.

Activity 2

Think about other benefits the Millers and Carpenters might receive. Part of the Millers' income probably comes from Social Security. Perhaps the Carpenters send a preschooler to a federally funded Head Start nursery school. Because of their income level, the Carpenters also qualify for free milk at school. Next, think about what other taxes the Millers and Carpenters might be paying.

How does their state's income tax and sales tax affect each?

Answers will vary.

Activity 3

On another sheet of paper, make a tally sheet of possible "extras" that could be added to the chart above. Then, write a paragraph that explains why you think the Millers and Carpenters are being taxed fairly or unfairly.

Answers will vary.