

Worksheet Solutions

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 \times percentage of income paid in tax = amount of tax.

Example: $\$15,000 \times .10$ (10%) = \$1,500.

PROPORTIONAL TAX		
Income	Percentage of Income Paid in Tax	Amount of Tax
\$5,000	10%	\$500
\$10,000	10%	\$1,000
\$25,000	10%	\$2,500
\$50,000	10%	\$5,000
\$100,000	10%	\$10,000

Activity 2

The Arney-Shelby flat tax proposal is also based on a 17 percent rate. The Arney-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?

Lower income groups would pay less or no taxes.

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

nothing

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.

Answers will vary.