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.
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?

   Lower income groups would pay less or no taxes.

2. Using the Armey-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.