

Rebecca has an income of \$20,000 a year and pays \$2000 a year in income taxes. From this information we can conclude that this tax system

- is regressive.
- is proportional.
- is progressive.
- satisfies the benefits principle of taxation.

6. The ability-to-pay principle of taxation is an example of

- horizontal equity.
- vertical equity.
- the benefits principle.
- fiscal federalism.

7. If two families are identical in all respects, the principle of horizontal equity says that

- both families should pay more income taxes than other families with less income.
- both families should pay the same income tax.
- both families should have a lower average tax rate than a richer family.
- income taxes are, from a social viewpoint, a more appropriate form of taxation than are payroll taxes.

8. Which of the following are examples of the benefits principle of taxation?

- Excise taxes on cigarettes.
- Higher property taxes as a percent of market value for more expensive homes.
- Special assessments on homeowners in proportion to their street frontage to help pay for repairs to curbs and gutters.
- Social security taxes.

9. A sales tax on which of the following will involve a small excess burden?

- A tax on a commodity with a zero price elasticity of demand.
- A tax on a commodity with a very high elasticity of demand.
- A tax on a commodity that is consumed primarily by poor families.
- A tax on a commodity that is consumed primarily by rich families.

10. The flypaper theory of tax incidence

- is a shorthand reference to such sticky issues as the appropriate degree of progressivity in the personal income tax.
- implies that if a tax induces changes in economic behavior, part of the burden of the tax may be shifted to other economic agents.
- is usually right regarding who bears the burden of a tax.
- states that the burden of a tax is borne by those who pay the tax.

Test 2

Circle T or F for True or False as appropriate.

- Over the past 30 years federal government taxes have been taking an ever-increasing share of the GNP. T F
- Tax loopholes mean that the federal personal income tax is more progressive than the statutory rates imply. T F
- Federal payroll taxes are a less important source of revenue than either the federal personal income tax or the federal corporate income tax. T F
- State personal income taxes are an example of a direct, as opposed to an indirect, tax. T F
- State taxes are primarily indirect taxes. T F
- There is unanimous agreement among economists that property taxes are heavily regressive. T F
- The principle of horizontal equity says that equally situated individuals should be taxed equally. T F
- The ability-to-pay principle says that people who derive benefits from a particular public service should pay the taxes to finance it. T F
- The burden of a tax is normally less than the revenue raised by the tax. T F
- If a tax does not induce a change in economic behavior, then there is no excess burden. T F
- The flypaper theory of tax incidence says that the incidence of social security taxes is entirely on workers. T F
- The concept of excess burden proves that taxes can never improve efficiency. T F

SUPPLEMENTARY EXERCISE

Table 30-2 reproduces the federal income tax rates for single taxpayers in 1981. Taxable income is the total income minus the personal exemption, which in 1981 was \$1000. Use the information in Table 30-2 to complete Table 30-3. Do not forget to claim your \$1000 personal exemption.

TABLE 30-2
1981 Tax Rate Schedules
SCHEDULE X — Single Taxpayers

Taxable income	Tax	of the amount over—
Not over \$2,300	0	
Over—	But not over—	14% \$ 2,300
\$ 2,300	\$ 3,400	\$ 154 + 16% \$ 3,400
\$ 3,400	\$ 4,400	\$ 314 + 18% \$ 4,400
\$ 4,400	\$ 6,500	\$ 692 + 19% \$ 6,500
\$ 6,500	\$ 10,800	\$ 1,072 + 21% \$ 10,800
\$ 8,500	\$ 12,900	\$ 1,555 + 24% \$ 12,900
\$ 10,800	\$ 15,000	\$ 2,059 + 26% \$ 15,000
\$ 12,900	\$ 18,200	\$ 2,605 + 30% \$ 18,200
\$ 15,000	\$ 23,500	\$ 3,565 + 34% \$ 23,500
\$ 18,200	\$ 28,800	\$ 5,367 + 39% \$ 28,800
\$ 23,500	\$ 34,100	\$ 7,434 + 44% \$ 34,100
\$ 28,800	\$ 41,500	\$ 9,766 + 48% \$ 41,500
\$ 34,100	\$ 55,300	\$ 13,392 + 53% \$ 55,300
\$ 41,500	\$ 81,800	\$ 20,982 + 58% \$ 81,800
\$ 55,300	\$ 108,300	\$ 37,677 + 63% \$ 108,300
\$ 81,800		\$ 55,617 + 68% \$ 108,300

Tax Computation

- Taxable income
- Tax from Schedule X
- Rate Reduction Credit
Multiply the amount on line 2 by .0125
- Actual Tax
Subtract line 3 from line 2

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