Test B

Circle T or F for True or False as appropriate.

1. Over the past 30 years federal government taxes have been taking an ever-increasing share of the GNP. T F
2. Tax loopholes mean that the federal personal income tax is more progressive than the statutory rates imply. T F
3. 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
4. State personal income taxes are an example of a direct, as opposed to an indirect, tax. T F
5. State taxes are primarily indirect taxes. T F
6. There is unanimous agreement among economists that property taxes are heavily regressive. T F
7. The principle of horizontal equity says that equally situated individuals should be taxed equally. T F
8. 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
9. The burden of a tax is normally less than the revenue raised by the tax. T F
10. If a tax does not induce a change in economic behavior, then there is no excess burden. T F
11 The flypaper theory of tax incidence says that the incidence of social security taxes is entirely on workers. T F
12. The concept of excess burden proves that taxes can never improve efficiency. T F

a. is regressive.
b. is proportional.
c. is progressive.
d. satisfies the benefits principle of taxation.

6. The ability-to-pay principle of taxation is an example of
   a. horizontal equity.
   b. vertical equity.
   c. the benefits principle.
   d. fiscal federalism.
7. If two families are identical in all respects, the principle of horizontal equity says that
   a. both families should pay more income taxes than other families with less income.
   b. both families should pay the same income tax.
   c. both families should have a lower average tax rate than a richer family.
   d. 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?
   a. Excise taxes on cigarettes.
   b. Higher property taxes as a percent of market value for more expensive homes.
   c. Special assessments on homeowners in proportion to their street frontage to help pay for repairs to curbs and gutters.
   d. Social security taxes.
9. A sales tax on which of the following will involve a small excess burden?
   a. A tax on a commodity with a zero price elasticity of demand.
   b. A tax on a commodity with a very high elasticity of demand.
   c. A tax on a commodity that is consumed primarily by poor families.
   d. A tax on a commodity that is consumed primarily by rich families.
10. The flypaper theory of tax incidence
   a. is a shorthand reference to such sticky issues as the appropriate degree of progressivity in the personal income tax.
   b. implies that if a tax induces changes in economic behavior, part of the burden of the tax may be shifted to other economic agents.
   c. is usually right regarding who bears the burden of a tax.
   d. says that the burden of a tax is borne by those who pay the tax.

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 Over—	But not over—	Taxes
Not over $2,300		— 0 —
$ 2,300	$ 3,400	14% $ 2,300
$ 3,400	$ 4,400	$ 154 + 16% $ 3,400
$ 4,400	$ 6,500	$ 314 + 18% $ 4,400
$ 6,500	$ 8,500	$ 692 + 19% $ 6,5
$ 8,500	$ 10,800	$ 1,072 + 21% $ 8,
$ 10,800	$ 12,900	$ 1,555 + 24% $ 1
$ 12,900	$ 15,000	$ 2,059 + 26% $
$ 15,000	$ 18,200	$ 2,605 + 30%
$ 18,200	$ 23,500	$ 3,565 + 34%
$ 23,500	$ 28,800	$ 5,367 + 39
$ 28,800	$ 34,100	$ 7,434 + 4
$ 34,100	$ 41,500	$ 9,766 +
$ 41,500	$ 55,300	$13,392
$ 55,300	$ 81,800	$20,982
$ 81,800	$108,300	$37,67
$108,300		$55,6

Tax Computati

1. Taxable Income
2. Tax from Schedule X
3. Rate Reduction Cre
   Multiply the amoun line 2 by .0125
4. Actual Tax
   Subtract line 3 from line 2