

Regressive Tax Example

Family #1

Income: \$30,000

Gallons gasoline: 1,000

Gas tax: \$0.30/gallon

Yearly gas tax: \$300

Tax as share of income: 1%

Family #2

Income: \$300,000

Gallons gasoline: 1,000

Gas tax: \$0.30/gallon

Yearly gas tax: \$300

Tax as share of income: 0.1%

Per Capita Taxes

State A: Average or per capita taxes = \$1,800

State B: Average or per capita taxes = \$2,400

Which state has higher taxes?

What if told?

- Average income in State A is \$30,000
- Average income in State B is \$60,000

Which state has higher taxes?

- Average tax rate in State A is 6 percent of income
- Average tax rate in State B is 4 percent of income

Case for Progressive Taxation

State with three taxpayers:

- Household A earns \$20,000 a year and pays \$4,000 in taxes.
- Household B earns \$40,000 and pays \$6,000 in taxes.
- Household C earns \$250,000 and pays \$25,000 in taxes.

Unreasonable Crowd says:

- Wealthiest third – Household C – pays more than two-thirds of all taxes
- That's not fair!

Reasonable Crowd says look at taxes as share of income:

- A pays 20%
- B pays 15%
- C pays 10% of his/her income
- Thus, lowest income earner – Household A – has biggest tax burden – pays a larger share of income in taxes.
- Not based on ability to pay.
- Asks more of the poor while unreasonably letting the rich off the Luke 21 and Wealth of Nations progressive taxation hook