

Taxes and Taxation

Who and what should be taxed?

Vocabulary Terms

As you complete the Reading Notes, use these terms in your answers:

tax equity	proportional tax
tax incidence	progressive tax
deadweight loss	regressive tax
tax rate	

PREVIEW

Write the following four statements about taxes in your notebook. Then, record the answer that best represents your views on each.

1. Businesses that make more money should be taxed at a higher rate than businesses that make less money.
 - a. completely agree
 - b. mostly agree
 - c. mostly disagree
 - d. completely disagree
2. The government should tax goods that harm people or the environment, such as alcohol or tobacco.
 - a. completely agree
 - b. mostly agree
 - c. mostly disagree
 - d. completely disagree
3. Americans should only pay taxes to the state instead of to both the state and federal government.
 - a. completely agree
 - b. mostly agree
 - c. mostly disagree
 - d. completely disagree
4. Tickets to concerts, sporting events, and other forms of entertainment should be taxed.
 - a. completely agree
 - b. mostly agree
 - c. mostly disagree
 - d. completely disagree

READING NOTES

Section 1

1. Explain what Supreme Court justice Oliver Wendell Holmes Jr. meant when he said, “Taxation is the price we pay for civilization.” Do you agree with him? Why or why not?
2. Draw a symbol depicting each of Adam Smith’s maxims. Next to each symbol, describe the maxim in your own words.
3. Which of these two approaches to tax equity do you find fairer: the ability-to-pay principle or the benefits-received principle? Why?
4. Create a simple flowchart showing how a tax can result in a deadweight loss. Create your own example or use one from the text. A sample flowchart has been started for you.

A worker is offered a job with overtime.



Taxes take much of the added income.

Section 2

Copy and complete this table. For each tax listed, identify the tax base—personal income, good or service, or piece of property. Also identify the tax structure—proportional, progressive, or regressive. Finally, explain whether you think each tax is fair.

Tax	Tax Base	Tax Structure	Is this tax fair? Explain.
Income tax with a marginal tax rate			
Social Security tax			
Home property tax			
5-cents-per-dollar sales tax			
Corporate income tax			
Tax on jewelry			
Park entry fee			
Estate tax			

Section 3

1. Create pictowords for *mandatory spending* and *discretionary spending*.
2. Answer these questions about state and local revenue sources and expenditures shown in Figure 4C.
 - a. What are two interesting details about the data?
 - b. From what three sources do state and local governments get most of their revenue? What are their top three expenditures?
 - c. For which categories do you think state and local governments should spend more? Less? Why?

PROCESSING

Assume your town needs to raise revenue to build a new fire station. The mayor has asked residents to e-mail their positions on who and what should be taxed to pay for the new station. Write an e-mail that is at least three paragraphs long and that includes

- the tax base that should be targeted and why.
- the tax structure that should be used and why.
- an example of a tax that would meet these two criteria.