Worksheet Solutions

Applying Progressive Taxes

Theme 3: Fairness in Taxes
Lesson 3: Progressive Taxes

Key Terms

ability to pay—A concept of tax fairness that states that people with different amounts of wealth or different amounts of income should pay tax at different rates. Wealth includes assets such as houses, cars, stocks, bonds, and savings accounts. Income includes wages, interest and dividends, and other payments.

progressive tax—A tax that takes a larger percentage of income from high-income groups than from low-income groups.

Summary

In a **progressive tax** system, the amount of money paid by each individual or household varies according to income level and is based on the concept of **ability to pay**. The tax rate, and amount paid, increases as the income being taxed increases. A progressive tax system might, for example, tax low-income taxpayers at 10 percent, middle-income taxpayers at 15 percent, and high-income taxpayers at 30 percent. The U.S. federal income tax is based on the progressive tax system.

Activity 1

Complete the progressive tax chart below. To find the amount of tax, use this formula:
income x percent of income paid in tax = amount of tax.
Example: $25,000 x .15 (15%) = $3,750.

PROGRESSIVE TAX		
Income	**Percentage of Income Paid in Tax**	**Amount of Tax**
$5,000	10%	**$500**
$50,000	25%	**$12,500**
$100,000	28%	**$28,000**
$150,000	33%	**$49,500**
$350,000	35%	**$122,500**

Activity 2

Answer the following questions on the lines provided.

1. What might happen if the wealthiest taxpayers were taxed at a rate as high as 60 percent?

   They might not be able to purchase as many products and the economy might suffer.

2. What might happen to the nation's economy if businesses were taxed at a very high rate?

   Businesses might fail, jobs might be eliminated, and the whole economy might suffer.

Activity 3

Research a career of interest to you. On a separate piece of paper, write an essay that describes your chosen career. Be sure to include a salary range in your description. Using the chart below, determine what the tax rate would be for the salary you would make in this profession.

1. How much of this salary would be paid in taxes?

   Answers will vary.

2. How much of your salary would you have left?

   Answers will vary.

3. How might this influence your decision when choosing a career path?

   Answers will vary.

U.S. TAX BRACKETS—2007	
Single Taxpayer	**Rate**
$0–$7,825	10%
$7,825–$31,850	15%
$31,850–$77,100	25%
$77,100–$160,850	28%
$160,850–$349,700	33%
$349,700 and above	35%