Who Pays More?

Compare taxes by the share of income paid

E.4.4 "Determine whether different types of taxes (e.g., income tax, sales tax, and Federal Income Contributions Act [FICA] tax including Social Security and Medicare) are progressive, proportional, or regressive."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Read the passage and underline evidence about the share of income paid for each tax. In the margin, label each tax or tax component progressive, proportional, or regressive where the passage gives enough information.

Taxes at the Budget Meeting

1. At a neighborhood budget meeting, two workers compare what they owe. A tax is progressive when the share of income paid rises as income rises. It is proportional when that share stays the same, and regressive when it falls. Federal income tax uses brackets: dollars in higher brackets face higher rates, but entering a new bracket does not raise the rate on earlier dollars. For workers with the same filing situation, higher taxable income generally means paying a larger share of that income in federal income tax. Comparing shares, rather than total dollars paid, reveals the pattern.

2. Next, they look at a 5% sales tax on taxable purchases. Suppose one worker earns $20,000 a year and another earns $100,000. If each buys $4,000 worth of taxable goods, each owes $200 in sales tax. That is 1% of the first worker's income but 0.2% of the second worker's income. The tax rate is identical at the register, yet its share of yearly income falls as income rises. Under this same-purchases comparison, the sales tax is regressive. Actual households spend different amounts, so their individual results may differ.

3. Finally, they examine FICA taxes on wages. Social Security tax applies only up to an annual wage cap, so wages above the cap escape that tax. As wages rise past the cap, Social Security tax takes a smaller share of total wages. The regular Medicare tax takes the same percentage of wages at every earnings level, so it is proportional by itself. An extra Medicare tax applies to wages above a high-income threshold, making Medicare's total share rise at that point. FICA cannot always be given one label: its parts can change the combined share differently across wage ranges.

2 ANSWER WITH EVIDENCE

Use the passage

1. Is the federal income tax pattern described in the passage progressive, proportional, or regressive? Explain using the share of taxable income paid.

2. In the passage's same-purchases example, is the sales tax progressive, proportional, or regressive when measured against income? Use both workers' percentages.

3. For wages above the annual cap, is the Social Security tax progressive, proportional, or regressive as a share of total wages? Why?

4. How is the regular Medicare tax classified, and why might a single label for all FICA taxes be misleading?

3 YOUR TURN

Your own words

Design a tax on yearly income with one rate for income up to an amount you choose and a higher rate for income above it. Give two incomes, calculate each person's tax and tax as a share of income, then classify your tax.

ANSWER KEY

Who Pays More?

HIGH SCHOOL · E.4.4

PART 1 · READ AND MARK

Read the passage and underline evidence about the share of income paid for each tax. In the margin, label each tax or tax component progressive, proportional, or regressive where the passage gives enough information. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Is the federal income tax pattern described in the passage progressive, proportional, or regressive? Explain using the share of taxable income paid.	**Progressive. With the same filing situation, a worker with higher taxable income generally pays a larger share of that income.**
2	In the passage's same-purchases example, is the sales tax progressive, proportional, or regressive when measured against income? Use both workers' percentages.	**Regressive. The tax is 1% of the lower earner's income and 0.2% of the higher earner's income.**
3	For wages above the annual cap, is the Social Security tax progressive, proportional, or regressive as a share of total wages? Why?	**Regressive over that range. Wages above the cap are not taxed for Social Security, so the tax becomes a smaller share of total wages.**
4	How is the regular Medicare tax classified, and why might a single label for all FICA taxes be misleading?	**The regular Medicare tax is proportional because it takes the same percentage of wages. Social Security has a wage cap, while an extra Medicare tax applies above a high-income threshold, so the combined FICA share can change across wage ranges.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

My tax charges 10% of the first $20,000 of yearly income and 20% of income above $20,000. A person earning $20,000 pays $2,000, or 10% of income. A person earning $40,000 pays $6,000, or 15% of income. This tax is progressive because the share paid rises as income rises.

Check that the proposed higher rate applies only to income above the student's chosen cutoff. Accept any two correctly calculated examples and a classification supported by the resulting shares.