The Tax Tradeoff

How tax rules shape public services and household costs

GE.5.9 "Analyze and discuss the structure of, the purpose for, and the effects of government taxation."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two phrases that show how taxes are structured, circle two phrases that show their purposes, and write 1 and 2 beside two phrases describing their effects.

Who Pays for Harbor Point?

1. On a Saturday, Maya buys $100 in taxable supplies at a store in the fictional city of Harbor Point. A 6 percent sales tax adds $6 to her bill. The tax applies at the same rate to each taxable purchase, regardless of the buyer's income. Maya's aunt also pays federal income tax. In the United States, federal income tax uses brackets: higher rates apply to income within higher brackets, not to every dollar a person earns. These are different tax structures. One taxes spending at a set rate; the other taxes portions of income at different rates.

2. Local governments collect property taxes based on the assessed value of land and buildings. A school district may use that revenue to pay teachers and maintain classrooms. The sales tax in Harbor Point helps pay for bus service and street repairs. These taxes raise money for services that many residents use, including people who pay little tax themselves. Yet the costs reach households differently: a renter may pay property tax indirectly if a landlord factors that expense into rent. A homeowner may receive a higher property tax bill when an assessment rises, even if the owner's income has not changed.

3. A sales tax can take a larger share of a low-income household's income because that household often spends a larger fraction of its income on taxable goods. Lawmakers could exempt certain necessities to reduce that burden, but exemptions also reduce revenue. Taxes can affect the wider economy, too. During a slowdown, the federal government might temporarily cut income taxes so households keep more of their earnings to spend. That choice could support demand, but it would also reduce federal revenue in the short run. Officials must weigh who pays, what services taxes fund, and how changes affect behavior and budgets.

2 ANSWER WITH EVIDENCE

Use the passage

1. How do the sales tax and federal income tax differ in what they tax and how their rates work?

2. How can a property tax support students while also creating a challenge for a homeowner whose income stays the same?

3. Why could a 6 percent sales tax place a heavier burden on a low-income household, even though buyers pay the same rate?

4. Explain one possible economic benefit and one budget cost of the temporary federal income tax cut described in the passage.

3 YOUR TURN

Your own words

A different town needs money to extend bus service. It could add a 2 percent tax to taxable purchases or raise property taxes. In 4 to 5 sentences, recommend one option, explain how it would be collected, and weigh one benefit and one possible burden.

ANSWER KEY

The Tax Tradeoff

PART 1 · READ AND MARK

Underline two phrases that show how taxes are structured, circle two phrases that show their purposes, and write 1 and 2 beside two phrases describing their effects. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How do the sales tax and federal income tax differ in what they tax and how their rates work?	**The sales tax applies the same rate to each taxable purchase. Federal income tax applies different rates to portions of income in different brackets.**
2	How can a property tax support students while also creating a challenge for a homeowner whose income stays the same?	**A school district can use property tax revenue to pay teachers and maintain classrooms. If the home's assessment rises, the homeowner may face a higher bill without earning more.**
3	Why could a 6 percent sales tax place a heavier burden on a low-income household, even though buyers pay the same rate?	**A low-income household may spend a larger fraction of its income on taxable goods, so the tax can take a larger share of its income.**
4	Explain one possible economic benefit and one budget cost of the temporary federal income tax cut described in the passage.	**Households might spend more of the money they keep, supporting demand. The federal government would receive less revenue in the short run.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would raise the town's property tax to fund longer bus hours. The tax would be based on the assessed value of land and buildings. More bus service could help residents reach jobs without a car. However, homeowners with steady incomes might struggle with a higher bill, and landlords might pass some costs on to renters. Town leaders should consider that burden before setting the increase.

Accept either tax choice if the response accurately explains its structure and weighs a benefit against a plausible burden. For question 4, spending that supports demand is a possible benefit, not a guaranteed result.