

CONCEPT: TAX EQUITY

- *Tax equity* deals with the fairness of the tax system. How should the tax burden be divided? How do we judge if it's fair?
 - **The Benefits Principle** – people should pay taxes on the benefits they receive

<u>Gasoline Tax</u>	<u>Marina Tax</u>
Benefit:	Benefit:
Who pays?	Who pays?

- **Ability-to-Pay Principle** – people should pay taxes based on how easily they can afford them
 - > All taxpayers should make an equal “sacrifice” to pay taxes

<u>\$1,000 tax on a \$10,000 income</u>	<u>\$1,000 on a \$50,000 income</u>	<u>\$10,000 on a \$50,000 income</u>
Disposable Income:	Disposable Income:	Disposable Income:

- > This suggests that more taxes should be raised from people with higher incomes than lower incomes
- > This is also referred to as **vertical equity** (taxpayers with higher incomes pay more taxes)

- **Horizontal Equity** – people in the same economic situation should pay the same amount of taxes

The Sick Family earn \$100,000, have no children, and pay \$40,000 in medical expenses.	The School Family earn \$100,000, have four children, and pay \$60,000 in tuition.
Are they in the same economic situation? Should the Sick Family or School Family receive a tax break?	

- In each of the following tax systems a higher income taxpayer pays more:
 - **Regressive Tax** – the tax rate _____ as income increases
 - **Proportional Tax** – the tax rate _____ as income increases
 - **Progressive Tax** – the tax rate _____ as income increases

Income	Regressive Tax		Proportional Tax		Progressive Tax	
	Tax %	Amount of Tax	Tax %	Amount of Tax	Tax %	Amount of Tax
\$50,000						
\$100,000						
\$200,000						