Visual 11.1
Quotations

The Congress shall have power to lay and collect taxes, duties, imposts and excises to pay the debts and provide for the common defense and general welfare of the United States.

—United States Constitution, Article 1, Section 8

Taxes are the price we pay for civilization.

—Oliver Wendell Holmes, Jr. (Inscription carved above the entrance to the Internal Revenue Service building in Washington, D.C.)

To force a man to pay for the violation of his own liberty is indeed an addition of insult to injury.

—Benjamin Tucker (1890)

Not one cent should be raised unless it is in accord with the law.

—Napoleon Bonaparte (circa 1800)

VISUAL 11.2

TAX SIMULATION ILLUSTRATION

Example:

The group agrees to rates of 5% for the first $25,000 of wage income, 10% for the next $25,000, and 5% for all wage income above $50,000. The group decides to tax capital gains at 10% and to give a child tax credit of $250 per child.

How these rates impact a hypothetical household:

If a household earns $30,000 in wage income, has no capital gains, and has no children, then the household would pay:

5%	x	$25,000 (5% on first $25,000)	=	$1,250
10%	x	$5,000 (10% on remaining $5,000)	=	$ 500
Total Tax				$1,750

VISUAL 11.2, CONTINUED

TAX SIMULATION ILLUSTRATION

How much total tax revenue this tax will collect in the country:

The group would fill in the table as follows. This tax plan does not earn enough tax revenue, so tax rates need to be higher.

Tax Law

Tax Bracket	Total Wage Income in Tax Bracket	Tax Rate	Tax Revenue
$0 to $25,000	$110,000	**5%**	**$5,500**
$25,000 to $50,000	$70,000	**10%**	+ **$7,000**
$50,000 and Above	$70,000	**5%**	+ **$3,500**
Sum of Tax Revenues listed above			= **$16,000**
Capital Gains Tax: $25,000 x __**10**____ %			+ **$2,500**
Subtract Amount of Child Tax Credits: $ ___**250**_____ X 4 =			**- $1,000**
Total Tax Revenue			= **$17,500**

VISUAL 11.3

GROUP RESULTS: TAX RATES

Tax Laws Passed					
	Country	Country	Country	Country	Country
$0 to $25,000	%	%	%	%	%
$25,000 to $50,000	%	%	%	%	%
$50,000 and above	%	%	%	%	%
Capital Gains	%	%	%	%	%
Child Tax Credit					
Total Tax Revenue					

Visual 11.4

How Do We Describe Taxes?

A Progressive Tax:

Households with higher incomes pay a larger share of their income in tax than households with lower incomes. For an income tax, this usually implies that the marginal tax rate increases as income increases.

A Proportional Tax:

All households pay the same share of their income in tax. For an income tax, this means that the marginal tax rate is constant.

A Regressive Tax:

Households with higher incomes pay a smaller share of their incomes in tax than households with lower incomes. For an income tax, this usually implies that the marginal tax rate decreases as income increases.