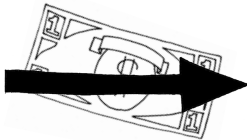


5. THE DILEMMA OF PAYING FOR BUILDING BRIDGES

Five Tax Proposals to Raise Money

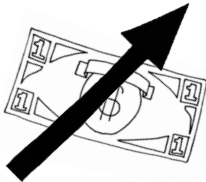
The Surprise Village Council hired you to examine the following five (5) proposed taxes, each levied (imposed) on a per household basis. Each will produce the needed amount of revenue. Your job is to analyze each option in terms of whether it is fair and whether it will be easy to administer. When you meet with council members you need to present the pros and cons of each option and then recommendation one proposal (giving your reasons, of course).

FIVE PROPOSED TAXES



1. a flat (or proportionate) income tax

Rate: **10%** of household income.



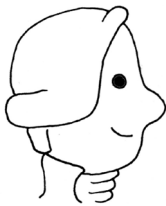
2. a graduated (or progressive) income tax

Rates (of household income):

5% on the 1st **\$25,000** of income;

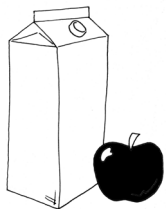
10% on the 2nd **\$25,000** of income, and

15% on all income above **\$50,000**



3. a head (or poll or per capita) tax

Each household pays the same amount: **\$6,250**



4. a sales (or flat consumption) tax

Rate: **13.16%** on everything household spends.

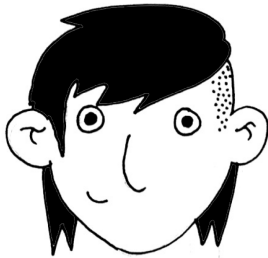


5. a flat property tax

Rate: **1.25%** on the value of land and buildings owned.

THE FOUR TAXPAYER HOUSEHOLDS

In order to evaluate the effects of the taxes on the community, pretend there are only four (4) households (and each, for simplicity, is named after one adult):



Alex

- Married; has two children.
- Owns and lives with family in house worth \$300,000 (inherited from grandparents).
- Income: \$25,000 (This income is about poverty level in 2014 for family of four.)
- Spending: \$30,000 (This spending is about average for a household that size with that income.)



Bailey

- Not married; has no children.
- Rents and lives alone in a nice apartment.
- Income: \$25,000 (This income is double [214%] the poverty line for a one-person household.)
- Spending: \$25,000.



Cam

- Not married; has one child.
- Owns and lives in a house worth \$200,000 (13 year old child stays every weekend).
- Income: \$50,000 (This income is about the median income (½ above; ½ below.)
- Spending: \$45,000.



Dana

- Married; has no children
- Dana and spouse own and live in a luxury home worth \$1,500,000.
- Income: \$150,000 (This income is in the top 10% of household incomes.)
- Spending: \$90,000.