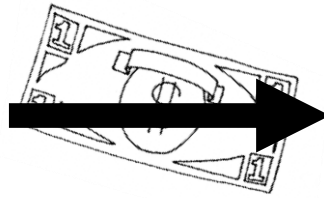


8. EFFECT OF TAX PROPOSALS ON EACH TAXPAYER

Results & Analysis of the Five Proposals on Each Taxpayer

BASIC HOUSEHOLD DATA

Household	Alex	Bailey	Cam	Dana
Married?	Yes	No	No	Yes
Children	2	0	1	0
Income	\$25,000	\$25,000	\$50,000	\$150,000
Spending	\$30,000	\$25,000	\$45,000	\$90,000
Property Value	\$300,000	\$0	\$200,000	\$1.5 million



OPTION 1: FLAT OR PROPORTIONAL INCOME TAX

Tax Rate: Each household will pay a tax equal to **10%** of its income.

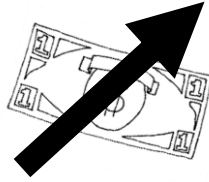
Alex (the household) will pay **10%** times **\$25,000**, which is **\$2,500**.

Bailey (the household) will pay **10%** times **\$25,000**, which is **\$2,500**.

Cam (the household) will pay **10%** times **\$50,000**, which is **\$5,000**.

Dana (the household) will pay **10%** times **\$150,000**, which is **\$15,000**.

A flat or proportional income tax is neither progressive nor regressive. As its name states, it is flat. Each taxpayer's tax equals **10%** of the household's income. BUT the more income taxpayers have, the bigger dollar amount they pay.



OPTION 2: GRADUATED OR PROGRESSIVE INCOME TAX

The rates are:

5% on 1st **\$25,000** of income,
10% on the 2nd **\$25,000** of income, and
15% on all income above **\$50,000**.

Alex will pay **5%** times **\$25,000**, which is **\$1,250**.

Bailey will pay **5%** times **\$25,000**, which is **\$1,250**.

Cam will pay **\$3,750**.

\$1,250 on the 1st **\$25,000 plus**

\$2,500 [**10%** times the next **\$25,000**]

Dana will pay **\$18,750**.

\$1,250 on the 1st **\$25,000 plus**

\$2,500 on the 2nd **plus**

\$15,000 on the rest.

The graduated or progressive income tax is progressive, as its name states. This is because the higher rates do not apply to all of a taxpayer's income. Each rate has a bracket of income to which it applies. In the Council's option, for example, the income bracket subject to the **10%** rate is only income between **\$25,001** and **\$50,000**; income up to **\$25,000** still pays only **5%**. The highest rate a taxpayer pays is called the *marginal* rate. Since the other lower rates still apply to earlier amounts of income, taxpayers' tax as a percent of income will always be less than the marginal rate if they paid more than one rate. This blend of all the rates is the *average* or *effective* rate of tax.

Household	Alex	Bailey	Cam	Dana
Marginal Rate	5%	5%	10%	15%
Effective (Average) Rate	5%	5%	7.5%	12.5%

Alex and Bailey both have a marginal rate of **5%** and an effective or average rate of **5%**.

They each pay **5%** of the total tax and have **10%** of the total income.

Cam has a marginal rate of **10%** but an effective or average rate of **7.5%**.

(\$3,750 tax divided by \$50,000 income)

Cam pays **15%** of the total tax and has **20%** of the total income.

Dana has a marginal rate of **15%** but an effective or average rate of **12.5%**.

(\$18,750 tax divided by \$150,000 income).

Dana pays **75%** of the total tax and also has **60%** of the total income.



OPTION 3: HEAD TAX

A “head” or “poll” tax per household (not person) requiring each household to pay the same amount: **\$6,250** (per household) times **4** produces the **\$25,000** needed.

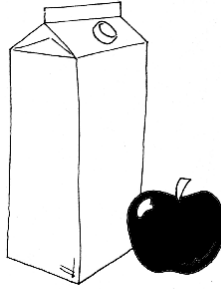
Each taxpayer pays the exact same amount in dollars (**\$6,250**) and each contributes **25%** of the tax. This may seem fair from one perspective, but is it fair from another perspective?

The poll tax is regressive when looked at as % of income. The poorer taxpayers pay a larger % of their income even though they have less discretionary income and so less ability to pay:

The poll tax equals **25%** of Alex and Bailey’s income [**\$6,250/\$25,000**].

The poll tax equals **12.5%** of Cam’s income [**\$6,250/\$50,000**].

The poll tax equals **4.17%** of Dana’s income [**\$6,250/\$150,000**].



OPTION 4: FLAT SALES OR CONSUMPTION TAX

Flat consumption or sales tax with a **13.16%** rate on everything a person spends.

Alex and family spend \$30,000 a year. Alex's tax is **\$3,948**.

Since Alex does not earn that much, some of the money comes from loans as well as government benefits such as Supplemental Nutrition Assistance Plan (SNAP, formerly Food Stamps) and the Earned Income Tax Credit (EITC) and loans. Almost all of the spending is for food (including restaurant, fast food, take-out), housing, clothes, transportation and health care.

Alex's consumption tax is approximately **15.8%** of Alex's income (**\$3,948/\$25,000**).

Alex pays about **15.8%** of the total consumption tax paid by everyone.

Bailey spends \$25,000 a year. Bailey's tax is **\$3,290**.

Almost all of the spending is for food (including restaurant, fast food, take-out), housing, clothes, transportation and health care. Having to spend for only one person, Bailey can spend more on entertainment and other discretionary items.

Bailey's consumption tax is about **13.16%** of Bailey's income (**\$3,290/\$25,000**).

Bailey pays about **13.16%** of the total consumption tax paid by everyone.

Cam and family spend \$45,000 a year. Cam's tax is **\$5,922**.

Again, most of Cam's spending goes for food, housing, clothes, transportation and health care. Cam's higher income, however, allows Cam to spend more on the essentials as well as other discretionary items but also lets Cam save a small amount each year.

Cam's consumption tax is about **11.8%** of Cam's income (**\$5,922/\$50,000**).

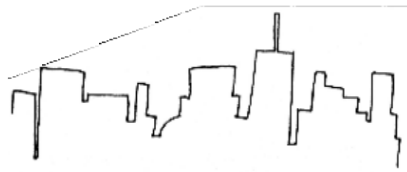
Cam pays about **23.5%** of the total consumption tax paid by everyone.

Dana and family spend \$90,000 a year. Dana's tax is **\$11,844**.

Dana's consumption tax is about **7.9%** of Dana's income (**\$11,844/\$150,000**).

Dana's consumption tax is about **47.38%** of the total consumption tax paid by everyone.

The sales tax is regressive as measured by income even though it is a flat percentage of spending.



OPTION 5: PROPERTY TAX

A flat property tax on the value of housing a taxpayer owns. The rate is **1.25%**.

Alex pays a **1.25%** property tax on a value of **\$300,000**, which is **\$3,750**.

Bailey owns no house and so pays no property tax, which is **\$0**.

Cam pays **1.25%** property tax on a value of **\$200,000**, which is **\$2,500**.

Dana pays **1.25%** property tax on a value of **\$1,500,000**, which is **\$18,750**.

Household	Alex	Bailey	Cam	Dana
Property tax as a % of income	15%	0% (some indirectly as rent)	5%	12.5%

Property taxes can be either progressive or regressive when measured by income. Although people with higher incomes usually have more expensive homes than those with less income, this is not always the case. The Alex household, for example, lives in near poverty but owns a home worth \$300,000 because they inherited it.

In this case the tax is both regressive and progressive as measured by income. It is progressive in that Dana, who has the most income, pays a higher percentage tax than Bailey or Cam, but it is regressive in that Alex's property tax is a highest percentage of income than either Cam or Dana—both of whom have more income.