



## 6-4: Tax Expenditure Task

### I Like the Bike But Do We Need a Tax Hike?

#### Readings:

- Tj6-1 Tax Expenditure Basics
- Tj6-2 Effects & Considerations
- Tj6-3 Tax Expenditure Example
- No Vehicles in the Park

Ten people live in the State of Amity (you can add as many zeros to that 10 to make it realistic if you like). Each person earns \$10,000. The people form a government having a legislature (all of them), a president, and a court. The legislature needs \$10,000 to pay for all the goods and services that they want it to perform. They vote to impose a tax of 10% on their income to raise this money. This means each of them will pay \$1,000 each.

One state legislator has proposed encouraging bike riding. The Legislature has hired you as a consultant to consider these issues.

- 1 What are some of the pros and cons of enacting a policy that encourages bike riding?
- 2 What are some of the non-tax ways could enact such a policy?
- 3 Describe the results for the taxpayers and state revenue of enacting a policy through a tax preference in the income tax in the form of:
  - a \$300 Exclusion
  - b \$300 Deduction
  - c \$200 Credit

For purposes of determining the effects assume that the bikes cost \$300 dollars and only half (5) of the citizens of Amity buy bikes. Alicia, Bob, Carla, Diego, Elena)

- 4 Draft a law which would allow a \$300 deduction for anyone who buys a \$300 bike