

Chapter 12

1. a. Fill out the table below assuming that the government taxes 20 percent of the first €30,000 of income and 50 percent of all income above €30,000.

Income	Taxes Paid	Average Tax Rate	Marginal Tax Rate
€10,000	_____	_____	_____
20,000	_____	_____	_____
30,000	_____	_____	_____
40,000	_____	_____	_____
50,000	_____	_____	_____

- b. Compare the taxes for someone earning €10,000 to those of someone earning €50,000 in part (a) above. Is this tax system progressive, regressive, or proportional? Explain.

2. a. Fill out the table below assuming that the government imposes a lump-sum tax of €6,000 on all individuals.

Income	Taxes Paid	Average Tax Rate	Marginal Tax Rate
€10,000	_____	_____	_____
20,000	_____	_____	_____
30,000	_____	_____	_____
40,000	_____	_____	_____
50,000	_____	_____	_____

- b. Compare the taxes for someone earning €10,000 to those of someone earning €50,000 in part (a) above. Is this tax system progressive, regressive, or proportional? Explain

3. a. Fill out the table below assuming that the government taxes 20 percent of all income.

Income	Taxes Paid	Average Tax Rate	Marginal Tax Rate
€10,000	_____	_____	_____
20,000	_____	_____	_____
30,000	_____	_____	_____
40,000	_____	_____	_____
50,000	_____	_____	_____

- b. Compare the taxes for someone earning €10,000 to those of someone earning €50,000 in part (a) above. Is this tax system progressive, regressive, or proportional? Explain.

4. a. Fill out the table below assuming that the government taxes 40 percent of the first €10,000 of income and 10 percent of all income above €10,000.

Income	Taxes Paid	Average Tax Rate	Marginal Tax Rate
€10,000	_____	_____	_____
20,000	_____	_____	_____
30,000	_____	_____	_____
40,000	_____	_____	_____
50,000	_____	_____	_____

- b. Compare the taxes for someone earning €10,000 to those of someone earning €50,000 in part (a) above. Is this tax system progressive, regressive, or proportional? Explain.

5. a. Suppose the only objective of the tax system is to collect €6,000 from people who earn €30,000. Which of the tax systems described in questions 1 through 4 is best? Why?

- b. Suppose the only objective of the tax system is to be efficient. Which of the tax systems described in questions 1 through 4 is best? Why?

- c. Suppose the only objective of the tax system is to be vertically equitable based on the ability-to-pay principle. Which of the tax systems described in questions 1 through 4 is best? Why?