

Who should pay taxes? Are taxes fair? Who should pay taxes and how much? These are not easy questions to answer. Should people who get the benefits pay the taxes? This is called a **benefits-received tax**. On the other hand, some people believe that the rich should pay more. This is called an **ability-to-pay tax**.

The gasoline tax is an example of the benefits-received tax. The money raised through gasoline taxes is used to build and repair roads. The person who drives a car many miles pays more in gasoline taxes. The same rule works for highway tolls. If a person never drives on a toll road, he or she never has to pay the toll. Fees to use our national parks are another example. The money raised gives a direct service to the people who pay the tax.

Who should pay for the local fire and police departments? You cannot very well wait until your house is burning down to pay your tax. Clearly, the police should not ask you if you have paid your tax before protecting you. These benefits should extend to everyone, including poor people who may pay little or no property tax. The same rule applies to the national defense. All the people must be protected, regardless of how much tax they pay. In these cases, the benefits-received rule does not work well.

The ability-to-pay rule says that the people who earn the most money should pay the most taxes. One example is the federal income tax. This is called a **progressive tax** (pruh-GRES-iv TAKS). The more you earn, the more tax you pay. Table 1 shows how this works in theory. At \$5,000 income, you pay no tax; at \$10,000 income, you pay 5 percent or \$500; at \$25,000 income, you pay 20 percent or \$5,000. At the present time, the federal tax code is less progressive than it once was. There used to be five tax brackets. Now there are only three brackets — 15 percent, 28 percent and 31 percent.

Table 1

### Progressive Tax

Income	Tax Rate	Total Tax
\$5,000	0%	\$0
\$10,000	5%	\$500

Table 2

### Proportional Tax

Income	Tax Rate	Total Tax
\$5,000	10%	\$500
\$10,000	10%	\$1,000
\$15,000	10%	\$1,500
\$20,000	10%	\$2,000
\$25,000	10%	\$2,500


Some state income taxes are **proportional** (pruh-POR-shun-ul) rather than progressive. As your income goes up, the percentage of tax you pay stays the same. Table 2 shows how this works. At all levels of income, you pay 10 percent. This means that the poor and the rich both pay 10 percent. If you compare the two tables, you will see why the rich usually support proportional taxes while the poor favor progressive taxes.

The sales tax is also a proportional tax. Everyone pays the same sales-tax rate. As a result, the sales tax hurts the poor more than the rich because the poor must pay a higher percentage of their incomes in taxes. Poor people often must spend all of their income to survive. They pay the sales tax on all of their income. Rich people can save some of their income and avoid the sales tax on that part of their income.

If tax money is used fairly and wisely, taxes benefit everyone. Taxes build schools and highways. Taxes provide health care and national defense. Taxes give aid to veterans and senior citizens.

Taxes have another important role. They help to close the gap between the rich and the poor. Progressive taxes take money away from the rich and give it to the poor. This is done through the funding of **transfer payments** (TRAN-sfur PAY-ments) or welfare programs, such as Aid to Families with Dependent Children (AFDC) and Food Stamps.

**proportional**  
a tax that everyone pays, based on the same percentage

 Sales tax is a proportional tax.

**On Your Way Up**  
**Organizing in a Chart**  
Make a chart with two columns. In the first column, list all the taxes discussed in this chapter. In the second column, describe each tax. Write a heading for each column in your chart.

**transfer payments**  
tax money taken from the rich and given to the poor