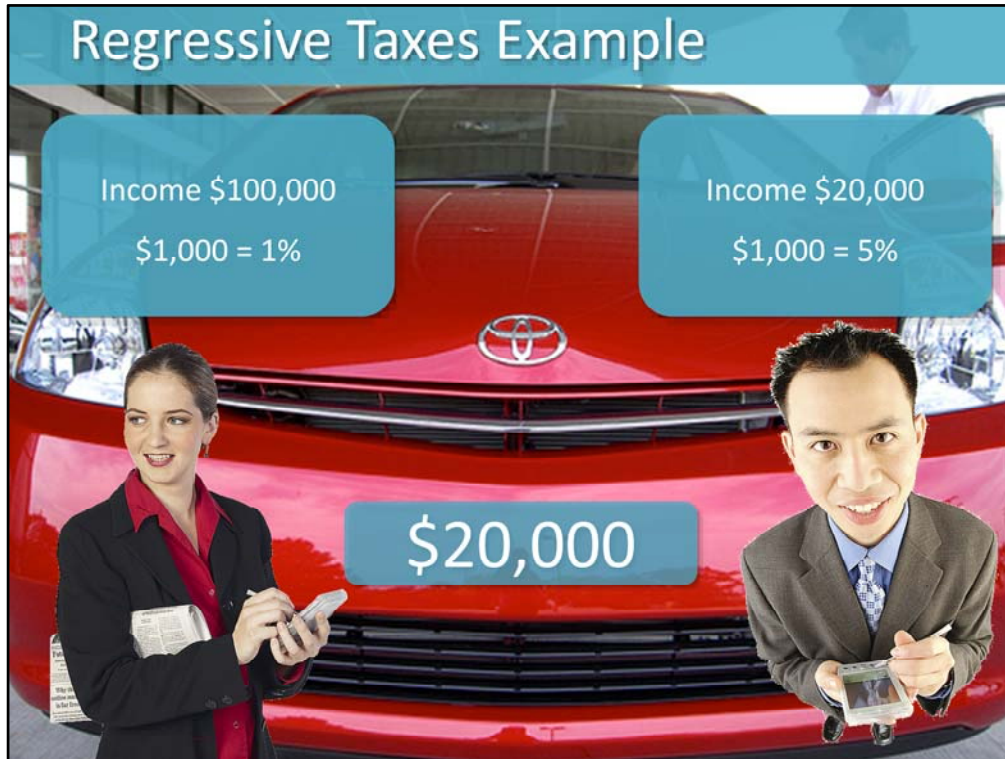




In the United States, there are many different types of taxes: highway tolls, estate taxes, entertainment taxes, retail taxes, and more. No matter what the tax, however, it falls into one of three categories: regressive, progressive or proportional. Let's go over each of these.

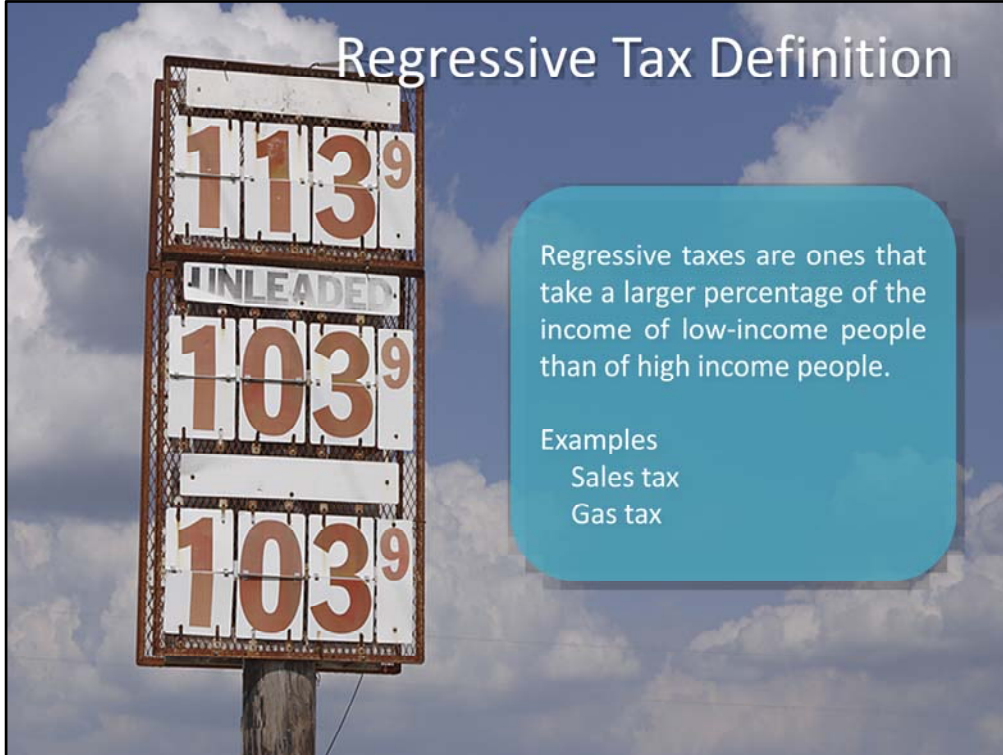


Let's assume two people, Wendy and Joe, want to buy the same car.

Wendy earns one hundred thousand dollars a year, and Joe earns twenty thousand. They both want to buy the same car which costs twenty thousand dollars. Sales tax is five percent of the total price, which is one thousand dollars. Since Wendy earns one hundred thousand dollars a year, one thousand dollars represents one percent of her income. However, the same thousand dollars represents five percent of Joe's income.

Although the total tax is the same, it equals a larger amount of Joe's income because he earns less. This is an example of a regressive tax.

Regressive Tax Definition



Regressive taxes are ones that take a larger percentage of the income of low-income people than of high income people.

Examples

- Sales tax
- Gas tax

Regressive taxes take a larger percentage of the income of low-income people than of high income people. Sales taxes and other taxes you pay when you buy things such as gasoline, cigarettes, and liquor are considered regressive taxes. Social Security is also considered a regressive tax in that there is a cap of around one hundred thousand dollars, and income above that cap is not taxed. If you make two hundred thousand dollars or twenty million, you pay the same social security tax.

Can you think of other regressive taxes?

Progressive Taxes Example

19,000					
19,000	19,050	2,436	2,019	2,436	2,256
19,050	19,100	2,444	2,026	2,444	2,264
19,100	19,150	2,451	2,034	2,451	2,271
19,150	19,200	2,459	2,041	2,459	2,279
19,200	19,250	2,466	2,049	2,466	2,286
19,250	19,300	2,474	2,056	2,474	2,294
19,300	19,350	2,481	2,064	2,481	2,301
19,350	19,400	2,489	2,071	2,489	2,309
19,400	19,450	2,496	2,079	2,496	2,316
19,450	19,500	2,504	2,086	2,504	2,324
19,500	19,550	2,511	2,094	2,511	2,331
19,550	19,600	2,519	2,101	2,519	2,339
19,600	19,650	2,526	2,109	2,526	2,346
19,650	19,700	2,534	2,116	2,534	2,354
19,700	19,750	2,541	2,124	2,541	2,361
19,750	19,800	2,549	2,131	2,549	2,369
19,800	19,850	2,556	2,139	2,556	2,376
19,850	19,900	2,564	2,146	2,564	2,384
19,900	19,950	2,571	2,154	2,571	2,391
19,950	20,000	2,579	2,161	2,579	2,399

If line 43 (taxable income) is—		And you are—				Your tax is—
At least	But less than	Single	Married filing jointly	Married filing separately	Head of a household	
99,000						
99,000	99,050	21,447	17,131	21,659	19,609	19,609
99,050	99,100	21,461	17,144	21,873	19,621	19,621
99,100	99,150	21,475	17,156	21,887	19,633	19,633
99,150	99,200	21,489	17,169	21,901	19,645	19,645
99,200	99,250	21,503	17,181	21,915	19,657	19,657
99,250	99,300	21,517	17,194	21,929	19,669	19,669
99,300	99,350	21,531	17,206	21,943	19,681	19,681
99,350	99,400	21,545	17,219	21,957	19,693	19,693
99,400	99,450	21,559	17,231	21,971	19,705	19,705
99,450	99,500	21,573	17,244	21,985	19,717	19,717
99,500	99,550	21,587	17,256	21,999	19,729	19,729
99,550	99,600	21,601	17,269	22,013	19,741	19,741
99,600	99,650	21,615	17,281	22,027	19,753	19,753
99,650	99,700	21,629	17,294	22,041	19,765	19,765
99,700	99,750	21,643	17,306	22,055	19,777	19,777
99,750	99,800	21,657	17,319	22,069	19,789	19,789
99,800	99,850	21,671	17,331	22,083	19,801	19,801
99,850	99,900	21,685	17,344	22,097	19,813	19,813
99,900	99,950	21,699	17,356	22,111	19,825	19,825
99,950	100,000	21,713	17,369	22,125	19,837	19,837

Let's use Wendy and Joe again to look at progressive taxes.

Wendy's taxable income is one hundred thousand dollars, and Joe's is twenty thousand.

Using the 2009 tax table, Wendy would have to pay twenty one thousand seven hundred and thirteen dollars in income taxes, almost twenty two percent of her income. Joe, on the other hand, would have to pay two thousand five hundred and seventy-nine dollars in taxes, about thirteen percent of his income.

Wendy's tax burden is higher because her income is higher. This is an example of a progressive tax.

Progressive Tax Definition

Year 2010 income brackets and tax rates

Marginal Tax Rate ^[4]	Single	Married Filing Jointly or Qualified Widow(er)	Married Filing Separately	Head of Household
10%	\$0 – \$8,375	\$0 – \$16,750	\$0 – \$8,375	\$0 – \$11,950
15%	\$8,376 – \$34,000	\$16,751 – \$68,000	\$8,376 – \$34,000	\$11,951 – \$45,550
25%	\$34,001 – \$82,400	\$68,001 – \$137,300	\$34,001 – \$68,650	\$45,551 – \$117,650
28%	\$82,401 – \$171,850	\$137,301 – \$209,250	\$68,651 – \$104,625	\$117,651 – \$190,550
33%	\$171,851 – \$373,650	\$209,251 – \$373,650	\$104,626 – \$186,825	\$190,551 – \$373,650
35%	\$373,651+	\$373,651+	\$186,826+	\$373,651+

A progressive tax is a tax system in which those who earn higher incomes pay a higher percentage of their income than those with lower income. The U.S. income tax is an example of a progressive tax. As you can see from this table, the lower your income, the lower the percentage you are taxed. For example, if you are single and make forty thousand dollars, you must pay twenty-five percent to the government, while if you make one hundred thousand dollars, pay twenty-eight percent. Note that these are just rough estimates that may vary greatly depending on other circumstances.

How much tax?

Questions

Let's say that Joe received a promotion at work. He now makes \$33,000 taxable income per year. According to the tax table at the link below, how much would he owe in federal taxes?

Note that Joe is single.

Download the [2010 IRS tax table](#) to determine the answer.

- \$4,453
- \$4,535
- \$4,212
- \$4,623



Proportional Tax

Tax that applies at the same rate to everyone, regardless of income.

Example

An income tax that is “flat,” because everyone pays the same rate.

A proportional tax is tax that applies the same to everyone, regardless of income. This may sound like a regressive tax, but the difference is that proportional taxes consume the same amount of a wealthy person’s salary as a poorer person’s. The most common example of a proportional tax is an income tax that is “flat,” because everyone pays the same rate. Unlike progressive income taxes, someone making twenty thousand dollars would pay the same rate as a person making twenty million dollars.

In our example, if income tax was proportional, and the rate was twenty-five percent, Wendy would pay twenty-five thousand dollars in income tax, and Joe would pay five thousand dollars.

Summary

All taxes are different!



Next time you buy something, look at the receipt to see how much tax you paid. Look closely at your grocery bill, because some items may be taxed differently. Foods for home consumption may have reduced taxes while other things you buy may be taxed at the full rate. Look at your paycheck to see what kinds of taxes you pay. Think about whether each tax is regressive, progressive or proportional. You'll find that all taxes aren't the same.