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LESSON 11

HOW SHOULD GOVERNMENTS STRUCTURE THE TAX SYSTEM?

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INTRODUCTION

Collecting revenue through taxation creates complicated and controversial issues for governments. Governments need tax revenue in order to operate. In addition to supplying revenue, however, a tax system should also be viewed as fair. But what is fairness in taxation? There are a number of ways to think about this question. Economists often approach it by applying the principle of *vertical equity*. According to this principle, a fair system of taxation is one in which households with higher incomes will pay a larger share of their incomes in taxes than households with lower incomes. Most people believe that vertical equity implies a progressive tax system. This sounds straightforward, but in practice governments often find it difficult to achieve vertical equity in their tax systems. This lesson looks at issues associated with equitable taxation, focusing on the ideal of vertical equity and on certain tradeoffs that may be involved in efforts to reach that ideal.

LESSON DESCRIPTION

In a group activity, the students decide on a method of taxation for a hypothetical country. After they have developed a tax system, they discuss their reasons for designing the system they have created. They learn whether their system is progressive, regressive, or proportional.

CONCEPTS

- Average tax rate
- Horizontal equity
- Marginal tax rate
- Progressive tax
- Proportional tax
- Regressive tax
- Taxation
- Vertical equity

OBJECTIVES

Students will be able to:

1. Develop a simple tax system.
2. Distinguish between progressive taxes, proportional taxes, and regressive taxes.
3. Use the concept of vertical equity in describing and evaluating tax systems.

CONTENT STANDARDS

Economics (CEE Standards)

- People respond predictably to positive and negative incentives. (Standard 4)
- There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income. (Standard 16)
- Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued. (Standard 17)

Civics and Government (NSCG Standards, Grades 9-12)

- Students should be able to evaluate, take, and defend positions on issues regarding how government should raise money to pay for its operations and services. (III. B. 3)

TIME REQUIRED

120 minutes

MATERIALS

- A transparency of Visuals 11.1, 11.2, 11.3, and 11.4
- One calculator for each group of five students
- One set of role-playing cards from Activity 11.1 for each group of five students
- One copy of Activity 11.2, 11.3, and 11.4 for each group of five students

PROCEDURE

1. As necessary, introduce or review the concept of taxation. Explain briefly that governments need money in order to pay for the services they provide: education, fire protection, national defense, and so on. Governments obtain money by taxation—by imposing various taxes on individuals and corporations.
2. Explain that the purpose of this lesson is to explore different ways in which governments structure their tax systems. Different tax structures affect taxpayers in different ways, thus raising issues of fairness and efficiency.
3. Display Visual 11.1 and ask the students to read the first quotation. Explain that the U.S. Constitution gives Congress the right to collect taxes for the public good. Reveal the next two quotations. They express different points of view regarding taxation, ranging from the view that taxes are merely the cost of providing for the things we have come to expect in today's society to the view that any taxation deprives citizens of the right to do what they please with their lives and money. Reveal the final quotation, from Napoleon Bonaparte, and discuss it briefly. Tell the students that they will participate in an activity in which their task is to write a tax law.
4. Divide the class into groups of five. (If the class is not divisible by five, make as many groups of five as possible; assign the remaining students to serve as observers of a group.) Group by group, distribute the role-playing cards from Activity 11.1, and the calculators. In each group, each student must get a different card. Instruct the students to keep the information on their cards to themselves for now. In addition, distribute one copy of the tax law simulation instructions (Activity 11.2) and a blank copy of the tax law form (Activity 11.3) to each group.
5. Explain that, within the groups, each group member should play the role of the head-of-household described on his or her card. The five people in each group represent five households (in one country) who must figure out how to raise \$50,000 to pay for their country's government services. Allow the students to read the instructions among themselves.
6. After the groups have read the instructions, summarize the main points and clarify terms that the students may not understand:
 - Each group must come up with a tax scheme that the group members believe is reasonable and that raises the required \$50,000.
 - Groups may tax wage income by setting tax rates.
 - Groups may charge a tax on capital gains. (A capital gains tax is a tax on the appreciation of an asset such as stock or real estate.)
 - Groups may give families a tax credit (which is a reduction in taxes) for each child in a given household.
 - Tell the students that they will be judged against people with a similar background who are in other groups. Students who pay less in taxes than those from the same background in a different group will be judged successful.
7. After the students have read the instructions to the Activity, display Visual 11.2 to reinforce their understanding of their task.

Visual 11.2 presents an example (according to the instructions on Activity 11.2) that may help the students as they work to fill in the forms and determine how certain tax rates affect them.

Notes to the teacher:

- As necessary, remind the students that in their calculations they may need to convert percentages to decimals, and vice versa. Also, you may wish to offer incentives to encourage the students to complete their task successfully. For example, you might award a small prize (or provide some other award) to each of the five individuals who wind up paying the least amount of taxes in their income class. (For example: A Chan head of household will be a winner if that Chan pays less than the Chans in other groups.)
- The following table summarizes how the total wage income for each bracket

is calculated. This information is for the teacher’s reference only. In reading this table, you may wish to refer to the following example: The Chan family has earned \$45,000 this year. The first \$25,000 falls in the first tax bracket and is taxed at the rate for that bracket. The next \$20,000 is taxed at the rate for the second tax bracket. The “Total Wage Income in Bracket” is the total of the five families’ incomes in each bracket. For example, only three families have incomes high enough to reach the second tax bracket: the Chans, the Dasguptas, and the Engles. The sum of the income in this second bracket is \$70,000. In the simulation, the students know the total amount of wage income in each bracket, so they can calculate how much tax revenue their taxes will yield. The students do not know how each family makes (unless they share this information within their group).

Income Bracket	Abbots	Bosmans	Chans	Dasguptas	Engles	Total Wage Income in Bracket
\$0-25,000	\$10,000	\$25,000	\$25,000	\$25,000	\$25,000	\$110,000
\$25,000-\$50,000	\$0	\$0	\$20,000	\$25,000	\$25,000	\$70,000
\$50,000+	\$0	\$0	\$0	\$20,000	\$50,000	\$70,000
Total Wage Income	\$10,000	\$25,000	\$45,000	\$70,000	\$100,000	\$250,000

8. Tell the students that they will have 15 minutes to discuss and agree on their tax law. For the law to be enacted, it must be written out on Activity 11.3 and be signed by each of the five members of the group. In signing their names, the students should use their own first name and the last name of the person they are playing. Tell the students to begin their deliberations. For simplicity, you may wish to tell the students that they should not have a

negative tax payment for any family. This is probably most relevant in the case of the Abbots, who could possibly have child tax credits in excess of income tax owed.

9. During the deliberations, circulate to make sure the students understand the idea of different tax brackets. They may need help with the calculations needed to arrive at a tax law that raises exactly \$50,000. Tell the students it will be no problem if their tax rates raise a bit more than

\$50,000, due to rounding. If you see that students in a group are struggling, remind them that they need to raise \$50,000 from wages of \$250,000 and capital gains of \$25,000, so they have \$275,000 of income that is taxable. This means their tax rates have to be, on average, about 18 percent ($\$50,000 / \$275,000$). Remind them that if they want to tax some brackets or capital

gains at a rate lower than 18 percent, the rate then will have to be higher than 18 percent on other tax brackets or on capital gains. Obviously, an infinite number of combinations work. The students will have to use a bit of trial and error. The table below lists some examples that raise \$50,000.

Example Name	Tax Rate for Lowest Bracket	Tax Rate for Middle Bracket	Tax Rate for Highest Bracket	Capital Gains Tax Rate	Child Tax Credit
Flat Tax on Wage Income	20%	20%	20%	0%	\$ 0
Extremely Regressive, But With Child Tax Credit	50 %	0%	0%	0%	\$1,250
Extremely Progressive	0%	0%	50%	60%	\$ 0
Flat Tax on All Income	18.2%	18.2%	18.2%	18.2%	\$ 0
Compromise?	10%	20%	30%	20%	\$ 250

- After 15 minutes, tell the groups that they should have their tax laws written. If a group has not written and passed a law, tell the members of the group that their country's government has gone bankrupt and they are not eligible to receive any prizes. Also, they must fill in 20 percent for all brackets, 0 for the capital gains tax rate, and 0 for the child tax credit.
- Tell the students it is time to pay their taxes. Hand out a set of tax forms (from Activity 11.4) to each group. Have each person figure his or her taxes on the appropriate family form, using the group's tax law (or the rate of 20 percent on wage income if the group has not come to an agreement). Have the students calculate their average tax rate and their marginal

tax rate, and enter the results at the bottom of their tax forms.

- Collect the tax laws from each group and record them on Visual 11.3. Point out that the tax rates you are recording are the **marginal** tax rates for each income bracket. A marginal tax rate is the percentage of an additional dollar of income that is paid in tax. The marginal tax rate is important since people may make decisions based on this rate. The decision to earn an extra dollar of income, or not to, may depend on the marginal rate.
- Ask a member of the Engle family: If you earned one more dollar in wage income, how much would you have to pay in taxes? *(The answer will be the tax rate for the*

highest bracket.) Note that this is the marginal rate for the member of the Engle family. Remind the students that the marginal rate is different from the **average** tax rate. The average tax rate is the household's total tax divided by its total income. Ask the Engle family member: Is the marginal rate or the average rate larger for you? *(If the tax system is progressive, the marginal rate will be higher; if it is proportional, the marginal and average rates will be equal; if it is regressive, the marginal rate will be lower than the average rate.)*

14. Display Visual 11.4. Explain the differences among regressive, proportional, and progressive tax systems. Explain that the principle of **vertical equity** provides one way to consider fairness. It suggests that people with higher incomes should face a heavier tax burden. That is, it implies a progressive tax system. Another way to judge fairness is according to the principle of **horizontal equity**, which implies that people with equal incomes all should face the same tax burden. For example, a tax proposal to exempt all teachers' wage income from income taxes would violate the horizontal tax equity standard, since teachers would not pay the same tax as other taxpayers with the same income.

15. Ask the following questions on the economics of taxation.

- What kind of tax system (progressive, regressive or proportional) did your group try to achieve? *(Student answers will vary.) Why? (Some students may suggest a progressive tax system since they believe that wealthier people can afford a higher rate. Others may suggest that a proportional tax is easy to administer. Wealthier students may suggest that a regressive system worked well for them and so they lobbied for such a system. If the students' tax systems are very similar, share with the students some of the extreme examples listed in the table above to illustrate the range of possible variations in tax systems.)*

- Did your group decide to give a tax credit for children? *(Answers will vary. The tax credit will most likely be supported by the Abbot and Dasgupta families.) Why? (Some students will suggest that these families have additional expenses and so deserve a tax break. Their ability to pay taxes is reduced because they have more dependents. Students may also suggest that they want to support the concept of a family. Other students may suggest that having children is a personal decision which should not influence tax policy.)*
- Did your group decide to tax capital gains? *(Answers will vary. The Dasgupta and Engle families are likely to be opposed to taxing capital gains.) Why? (Students may suggest that gains on assets are similar to income from wages, and so should be taxed in a similar fashion. The students may note that large capital gains indicate a greater ability to pay taxes. Finally, some students may suggest that by NOT taxing capital gains they are encouraging households to buy stocks and other assets that may yield capital gains in the future.)*

16. Ask the groups how they came to an agreement on a tax law. Also ask them to describe the behaviors they witnessed during their deliberations. For example:

- Did you hold a vote on your proposal(s)? *(Some groups may have, others may not have.)* If the students voted, ask if they required a majority vote or a unanimous vote. *(If any of the groups failed to come up with a tax plan, it was likely because they could not come up with a tax plan that received unanimous consent, given that any tax law that was passed required the signature of each member of the group.)*
- If the students did not formally vote, was everything done by consensus? *(Again, answers will vary.)* Did one person in the group tend to act as a dictator? *(Perhaps.)*

- Introduce the term **log-rolling**; define it as a way of exchanging favors, especially in politics: lawmakers who are engaged in logrolling vote for one another’s proposed legislation. They say, in effect, “If you vote for the law I want, I’ll vote for the law you want. That way we’ll both get what we want.” Did the students witness any log-rolling on votes? *(This is likely to have happened. The cards are designed so that families with children and families with capital gains cannot, by themselves, pass a large tax credit for children or a low capital gains tax rate. However, if families with children or capital gains get together, they may be able to propose policies that are favorable to them and that will also be supported by the majority of the families in the group.)*
 - Did any of the groups fail to come to an agreement? *(Perhaps.)* Why? *(Some might not have been able to get a unanimous vote; others might not have arrived at any proposal on which to vote; others may have finished the work and voted, only to have someone balk at signing the law.)*
17. Poll the “relatives” across the groups and ask them what they paid in taxes. For example, ask the member of the Chan family from each country to report the taxes he or she paid. In each case, show how the “winner” (the family member who paid the lowest amount of taxes) benefited from the particular tax law passed in his or her country by comparing rates and tax credits on Visual 11.3. Award a prize to each winner, if promised.
18. Close the lesson by noting that the U.S. tax system is very complicated. It includes federal payroll taxes (Social Security and Medicare taxes) that are partly proportional and partly regressive. The federal income tax is progressive in structure, although deductions and separate rates for capital gains can make it less so. State sales taxes, as well as federal excise taxes (on gasoline, for example), tend to be regressive since people with lower incomes tend to spend a larger share of their incomes on goods and services. A complete understanding of taxation in the United States would take many years of study and personal experience. This lesson has introduced certain principles to serve as a basis for further learning.

CLOSURE

Summarize the following points:

- People have different opinions about how the government should tax its citizens.
- A group may use many different methods to reach a decision.
- Depending on how a country decides to tax its citizens, the tax system may be progressive, proportional, or regressive.

ASSESSMENT

Multiple-choice Questions

1. A flat tax is one that taxes all income at a constant percentage rate. A flat tax is
 - A. regressive.
 - B. progressive.
 - C. proportional.**
 - D. progressive at first, then regressive.
2. Use the federal income tax table below to answer the following questions. Suppose your household earns \$32,100 in 2008. Because of deductions and exemptions, assume that the taxable income for your household is \$16,050. For your household, the average tax on household income is _____. The marginal tax rate for another dollar earned in taxable income is _____.
 - A. 5%, 15%
 - B. 5%, 25%
 - C. 10%, 15%**
 - D. 10%, 25%

The table below is from the 2008 federal income tax table.

Schedule Y-1—If your filing status is Married filing jointly or Qualifying widow(er)

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$16,050 10%	\$0
16,050	65,100	\$1,605.00 + 15%	16,050
65,100	131,450	8,962.50 + 25%	65,100
131,450	200,300	25,550.00 + 28%	131,450
200,300	357,700	44,828.00 + 33%	200,300
357,700	96,770.00 + 35%	357,700

Constructed-Response Questions

1. Suppose the state where you live decided to increase its income tax rates in order to lower its sales tax. Would the tax system for your state become more progressive or more regressive because of this change? Explain your answer.

(Sales taxes are generally regressive. By replacing a regressive tax with an income tax, which is likely to be proportional or progressive, the tax system will become more progressive.)

2. Given the 2008 U.S. federal tax schedule shown above, is the U.S. federal tax system progressive, regressive, or proportional? Explain. *(It is progressive, since the marginal rate increases with income. The marginal rate [as of 2009] starts at 10% and moves to 15%, 25%, 28%, 33%, with a top marginal rate of 35%.)*

VISUAL 11.1

QUOTATIONS

The Congress shall have power to lay and collect taxes, duties, imposts and excises to pay the debts and provide for the common defense and general welfare of the United States.

—United States Constitution, Article 1, Section 8

Taxes are the price we pay for civilization.

—Oliver Wendell Holmes, Jr. (Inscription carved above the entrance to the Internal Revenue Service building in Washington, D.C.)

To force a man to pay for the violation of his own liberty is indeed an addition of insult to injury.

—Benjamin Tucker (1890)

Not one cent should be raised unless it is in accord with the law.

—Napoleon Bonaparte (circa 1800)

VISUAL 11.2

TAX SIMULATION ILLUSTRATION

Example:

The group agrees to rates of 5% for the first \$25,000 of wage income, 10% for the next \$25,000, and 5% for all wage income above \$50,000. The group decides to tax capital gains at 10% and to give a child tax credit of \$250 per child.

How these rates impact a hypothetical household:

If a household earns \$30,000 in wage income, has no capital gains, and has no children, then the household would pay:

5%	x	\$25,000 (5% on first \$25,000)	=	\$1,250
10%	x	\$5,000 (10% on remaining \$5,000)	=	<u>\$ 500</u>
Total Tax				\$1,750

VISUAL 11.2, CONTINUED

TAX SIMULATION ILLUSTRATION

How much total tax revenue this tax will collect in the country:

The group would fill in the table as follows. This tax plan does not earn enough tax revenue, so tax rates need to be higher.

Tax Law

Tax Bracket	Total Wage Income in Tax Bracket	Tax Rate	Tax Revenue
\$0 to \$25,000	\$110,000	5%	\$5,500
\$25,000 to \$50,000	\$70,000	10%	+ \$7,000
\$50,000 and Above	\$70,000	5%	+ \$3,500
Sum of Tax Revenues listed above			= \$16,000
Capital Gains Tax: \$25,000 x <u> 10 </u> %			+ \$2,500
Subtract Amount of Child Tax Credits: \$ <u> 250 </u> X 4 =			- \$1,000
Total Tax Revenue			= \$17,500

VISUAL 11.3

GROUP RESULTS: TAX RATES

Tax Laws Passed					
	Country	Country	Country	Country	Country
\$0 to \$25,000	%	%	%	%	%
\$25,000 to \$50,000	%	%	%	%	%
\$50,000 and above	%	%	%	%	%
Capital Gains	%	%	%	%	%
Child Tax Credit					
Total Tax Revenue					

VISUAL 11.4

HOW DO WE DESCRIBE TAXES?**A Progressive Tax:**

Households with higher incomes pay a larger share of their income in tax than households with lower incomes. For an income tax, this usually implies that the marginal tax rate increases as income increases.

A Proportional Tax:

All households pay the same share of their income in tax. For an income tax, this means that the marginal tax rate is constant.

A Regressive Tax:

Households with higher incomes pay a smaller share of their incomes in tax than households with lower incomes. For an income tax, this usually implies that the marginal tax rate decreases as income increases.

ACTIVITY 11.1

STUDENT ROLE-PLAYING CARDS

The Abbots

Your household wage income is \$10,000 a year. Your family has three children. Since your family has no investments, you have no capital gains income.

The Bosmans

Your household wage income is \$25,000 a year. You have no children. Since your family has no investments, you have no capital gains income.

The Chans

Your household wage income is \$45,000 a year. Your family has no children. Since your family has no investments, you have no capital gains income.

The Dasguptas

Your household wage income is \$70,000 a year. Your family has one child. In addition to this income, your investments have earned you \$5,000 in capital gains.

The Engles

Your household wage income is \$100,000 a year. In addition to this income, your investments have earned you \$20,000 in capital gains. Your family has no children.

ACTIVITY 11.2

TAX LAW SIMULATION

Directions: Your group lives in a country with five families. Each person in your group represents one of the families. Each person in the group has received a card that describes his or her family. Family representatives should not show their card to others in the group.

Your group must decide what the tax structure is going to be for your country. The country has a total taxable wage income of \$250,000. In addition, households earned \$25,000 in capital gains. The country's government needs to raise \$50,000 for defense, schools, roads, and government salaries. Your group must raise enough (\$50,000) in tax revenue to fund the government budget.

It is up to your group to write the tax law. Everyone in your group should participate in deciding what the tax rates in the country should be. When debating how the country should tax its citizens, each person should remember the circumstances of his or her own family, as described on the cards. While family representatives do not have to show their cards to anyone in the group, people in the group may want to introduce themselves to other group members and exchange information about their situations.

Your group will be judged successful if it comes up with a tax scheme that yields \$50,000 in tax revenue. A family representative will be viewed as successful if (1) his or her group comes up with a tax scheme that generates \$50,000 and (2) his or her family pays less tax than those families with the same background in other groups in the class.

The Revenue Service in your country has put together the following information.

Tax Bracket	Total Wage Income in Tax Bracket	Tax Rate (in %)	Tax Revenue
\$0 to \$25,000	\$110,000		
\$25,000 to \$50,000	\$70,000		+
\$50,000 and Above	\$70,000		+
Sum of Tax Revenues Listed Above			=
Capital Gains Tax:		\$25,000 x _____ %	+
Subtract Amount of Child Tax Credits:		\$ _____ X 4 =	-
Total Tax Revenue			=

ACTIVITY 11.2, CONTINUED

TAX LAW SIMULATION

Your group must decide what percentage rate to charge in each tax bracket. The table is read in the following manner:

- The first bracket asks what percentage you wish to tax on the first \$25,000 of household income.
- The second bracket asks what percentage you wish to tax on the NEXT \$25,000 of household income.
- The third bracket asks what percentage you wish to tax on household income OVER \$50,000.

Example:

If your group chooses rates of 5% for the first \$25,000 of income, 10% for the next \$25,000, and 5% for all income above \$50,000, then a household making \$30,000 in wage income would pay a total tax of:

5%	x	\$25,000 (5% on first \$25,000)	=	\$1,250
10%	x	\$5,000 (10% on remaining \$5,000)	=	<u>\$ 500</u>
Total Tax				\$1,750

The table above gives the total taxable income in each tax bracket for the country, so your group can calculate how much tax revenue is earned in the whole country. A tax law with rates of 5% on the first \$25,000, 10% on the second \$25,000, and 5% on the amount over \$50,000 would earn:

5%	x	\$110,000	=	\$5,500
10%	x	\$70,000	=	\$7,000
5%	x	\$70,000	=	<u>\$3,500</u>
Total Tax Revenue				\$16,000

ACTIVITY 11.2, CONTINUED

TAX LAW SIMULATION

In addition to taxing income, your group may also decide to levy a tax on capital gains, which is income a household earns when an asset (such as a stock or property) appreciates in value.

Finally, your group may also elect to give a tax credit for each child living in the country. There are four children in the country. You must subtract the credited amount from your tax collections in calculating tax revenue.

Suppose your group decides to provide a tax credit of \$250 per child and decides to charge a 10% capital gains tax in addition to the taxes on wages listed above. This would total up as follows:

$$\begin{aligned} \$25,000 \times 10\% &= \$2,500 \\ &\text{in additional tax revenue from capital gains} \end{aligned}$$

$$\$250 \text{ per child} \times 4 \text{ children} = \$1,000 \text{ in credits}$$

Total Tax Revenue with the child tax credit and capital gains tax and tax rates described above:

$$\$16,000 + \$2,500 - \$1,000 = \$17,500$$

After your group has decided on a tax law and made sure that the law will raise \$50,000 in revenue, fill in the table in Activity 11.3 for your country. Each person must sign for the law to be enacted.

Be sure to name your country and enter it on the tax law form!

ACTIVITY 11.3

TAX LAW FOR COUNTRY OF _____

The following shall be the tax rates for the country:

Tax Bracket	Wage Income in Tax Bracket	Tax Rate	Tax Revenue
\$0 to \$25,000	\$110,000		
\$25,000 to \$50,000	\$70,000		+
\$50,000 and Above	\$70,000		+
Sum of Tax Revenues listed above			=
Capital Gains Tax: \$25,000 x _____ %			+
Subtract Amount of Child Tax Credits: \$ _____ X 4 =			-
Total Tax Revenue			=

Signed:

ACTIVITY 11.4
TAX FORMS

Abbots: \$10,000 Wage Income

Tax Bracket	Your Wage Income in Each Tax Bracket	Tax Rate (in %)	Taxes on Income
\$0 to \$25,000	\$10,000		
\$25,000 to \$50,000	\$ 0		
\$50,000 and Above	\$ 0		
Sum of the Taxes Listed Above			=
Capital Gains Tax: \$0 x _____ %			+ 0
Subtract Amount of Child Tax Credit: \$ _____ x 3			-
Total Tax			=

Total Income (including capital gains) = \$10,000

Average Tax Rate = (Total Tax/Total Income) x 100 = _____%

Marginal Tax Rate = If you earned one more dollar, what percent would you pay of that additional dollar in tax = _____%

ACTIVITY 11.4, CONTINUED

TAX FORMS

Bosmans: \$25,000 Wage Income

Tax Bracket	Your Wage Income in Each Tax Bracket	Tax Rate (in %)	Taxes on Income
\$0 to \$25,000	\$25,000		
\$25,000 to \$50,000	\$ 0		
\$50,000 and Above	\$ 0		
Sum of the Taxes Listed Above			=
Capital Gains Tax: \$0 x _____ %			+ 0
Subtract Amount of Child Tax Credit: \$ _____ x 0			- 0
Total Tax			=

Total Income (including capital gains) = \$25,000

Average Tax = (Total Tax / Total Income) x 100 = _____%

Marginal Tax Rate = If you earned one more dollar, what percent would you pay of that additional dollar in tax = _____%

ACTIVITY 11.4, CONTINUED

TAX FORMS

Chans: \$45,000 Wage Income

Tax Bracket	Your Wage Income in Each Tax Bracket	Tax Rate (in %)	Taxes on Income
\$0 to \$25,000	\$25,000		
\$25,000 to \$50,000	\$20,000		
\$50,000 and Above	\$ 0		
Sum of the Taxes Listed Above			=
Capital Gains Tax: \$0 x _____ %			+ 0
Subtract Amount of Child Tax Credit: \$ _____ x 0			- 0
Total Tax			=

Total Income (including capital gains) = \$45,000

Average Tax = (Total Tax / Total Income) x 100 = _____%

Marginal Tax Rate = If you earned one more dollar, what percent would you pay of that additional dollar in tax = _____%

ACTIVITY 11.4, CONTINUED

TAX FORMS

Dasguptas: \$70,000 Wage Income

Tax Bracket	Your Wage Income in Each Tax Bracket	Tax Rate (in %)	Taxes on Income
\$0 to \$25,000	\$25,000		
\$25,000 to \$50,000	\$25,000		
\$50,000 and Above	\$20,000		
Sum of the Taxes Listed Above			=
Capital Gains Tax: \$5,000 x _____ %			+
Subtract Amount of Child Tax Credit: \$ _____ x 1			-
Total Tax			=

Total Income (including capital gains) = \$75,000

Average Tax = (Total Tax / Total Income) x 100 = _____%

Marginal Tax Rate = If you earned one more dollar, what percent would you pay of that additional dollar in tax = _____%

ACTIVITY 11.4, CONTINUED

TAX FORMS

Engles: \$100,000 Wage Income

Tax Bracket	Your Wage Income in Each Tax Bracket	Tax Rate (in %)	Taxes on Income
\$0 to \$25,000	\$25,000		
\$25,000 to \$50,000	\$25,000		
\$50,000 and Above	\$50,000		
Sum of the Taxes Listed Above			=
Capital Gains Tax: \$20,000 x _____ %			+
Subtract Amount of Child Tax Credit: \$ _____ x 0			- 0
Total Tax			=

Total Income (including capital gains) = \$120,000

Average Tax = (Total Tax / Total Income) x 100 = _____%

Marginal Tax Rate = If you earned one more dollar, what percent would you pay of that additional dollar in tax = _____%



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