

Taxes and Taxation

Who and what should be taxed?

Speaking of Economics

As you complete the Reading Notes, use these terms in your answers:

tax equity	proportional tax
tax incidence	progressive tax
deadweight loss	regressive tax
tax rate	

PREVIEW

Read the lyrics to the 1966 Beatles' song "The Taxman." Then answer these questions.

1. Who is "the taxman," and what does he tax?
2. Why are all these things being taxed?
3. What is the Beatles' point of view on who and what is taxed?
4. In your opinion, who and what should be taxed?

The Taxman

One, two, three, four

Hrmm!

One, two

One, two, three, four.

Let me tell you how it will be

There's one for you, nineteen for me

'Cause I'm the taxman, yeah, I'm the taxman

Should five per cent appear too small

Be thankful I don't take it all

'Cause I'm the taxman, yeah, I'm the taxman

If you drive a car, I'll tax the street

If you try to sit, I'll tax your seat

If you get too cold, I'll tax the heat

If you take a walk, I'll tax your feet

Taxman!

'Cause I'm the taxman, yeah, I'm the taxman

Don't ask me what I want it for

(aaah, Mister Wilson)

If you don't want to pay some more

(aaah, Mister Heath)

*'Cause I'm the taxman, yeah, I'm the taxman**

Now my advice for those who die

Declare the pennies on your eyes

'Cause I'm the taxman, yeah, I'm the taxman

And you're working for no one but me

Taxman!

* In 1966, Mr. Wilson was the British prime minister. Mr. Heath was the former British prime minister.

READING NOTES

Section 2

1. Explain what Supreme Court justice Oliver Wendell Holmes Jr. meant when he said, “Taxation is the price we pay for civilization.” Do you agree with him? Why or why not?
2. Draw a symbol depicting each of Adam Smith’s maxims. Next to each symbol, describe the maxim in your own words.
3. Which of these two approaches to tax equity do you find fairer: the ability-to-pay principle or the benefits-received principle? Why?
4. Create a simple flowchart showing how a tax can result in a deadweight loss. Create your own example or use one from the text. A sample flowchart has been started for you.

A worker is offered a job with overtime.



Taxes take much of the added income.

Section 3

Copy and complete this table. For each tax listed, identify the tax base—personal income, good or service, or piece of property. Also identify the tax structure—proportional, progressive, or regressive. Finally, explain whether you think each tax is fair.

Tax	Tax Base	Tax Structure	Is this tax fair? Explain.
Income tax with a marginal tax rate			
Social Security tax			
Home property tax			
5-cents-per-dollar sales tax			
Corporate income tax			
Tax on jewelry			
Park entry fee			
Estate tax			

Section 4

1. Create pictowords for *mandatory spending* and *discretionary spending*.
2. Answer these questions about state and local revenue sources and expenditures shown in Figure 4C.
 - a. What are two interesting details about the data?
 - b. From what three sources do state and local governments get most of their revenue? What are their top three expenditures?
 - c. For which categories do you think state and local governments should spend more? Less? Why?

PROCESSING

Assume your town needs to raise revenue to build a new fire station. The mayor has asked residents to e-mail their positions on who and what should be taxed to pay for the new station. Write an e-mail that is at least three paragraphs long and that includes

- the tax base that should be targeted and why.
- the tax structure that should be used and why.
- an example of a tax that would meet these two criteria.