5.1 Flat Tax & Political Philosophy

- Calculate a flat income tax.
- Identify types of taxes.
- Analyze an indirect tax.

Calculating a Flat Income Tax

A flat tax (short for flat rate tax) is a tax system with a constant tax rate. In the United States, the federal income tax is not a flat tax. People with higher incomes not only pay more income tax, they pay a higher tax rate (see Section 5.2). As of the writing of this text, seven states have a flat income tax.

 Colorado 	4.63%	 Illinois 	5.00%
 Indiana 	3.40%	 Massachusetts 	5.30%
 Michigan 	4.35%	 Pennsylvania 	3.07%
• Utah	5.00%		

Additionally, there are seven states with no income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.



Chapter 5

Study Tip

Income tax is paid on taxable income, which is gross income minus deductions, where "deductions" depend on the taxing authority.

EXAMPLE 1 Calculating a Flat Income Tax

Two people who live in Utah have the following taxable incomes.

Utah State Tax Commission

Utah Individual Income Tax Return
All State Income Tax Dollars Fund Education

incometax.utah.gov

2010 TC-40

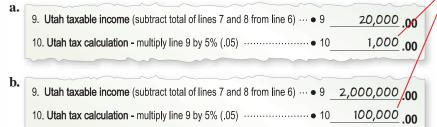
a. \$20,000 **b.** \$2,000,000

How much state income tax does each person owe?

SOLUTION

Each person owes 5% of his or her taxable income.

Note that a flat tax means that everyone pays the same rate, *not* the same amount.





Help at *Math.and*Y@U.com

Is the following logic valid? Explain your reasoning.

Flat income taxes are not fair because the rich should have to pay more income taxes than the poor.



Taxable Income: \$20,000

Taxable Income: \$2,000,000