5.1 Flat Tax & Political Philosophy

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

**Study Tip**

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

**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.

**Example 1** Calculating a Flat Income Tax

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

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.

**a.**

\[
\begin{align*}
9. & \text{ Utah taxable income (subtract total of lines 7 and 8 from line 6)} \quad \cdots \quad 9 & \underline{20,000.00} \\
10. & \text{ Utah tax calculation - multiply line 9 by 5% (.05)} \quad \cdots \quad 10 & \underline{1,000.00}
\end{align*}
\]

**b.**

\[
\begin{align*}
9. & \text{ Utah taxable income (subtract total of lines 7 and 8 from line 6)} \quad \cdots \quad 9 & \underline{2,000,000.00} \\
10. & \text{ Utah tax calculation - multiply line 9 by 5% (.05)} \quad \cdots \quad 10 & \underline{100,000.00}
\end{align*}
\]

**Checkpoint**

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.