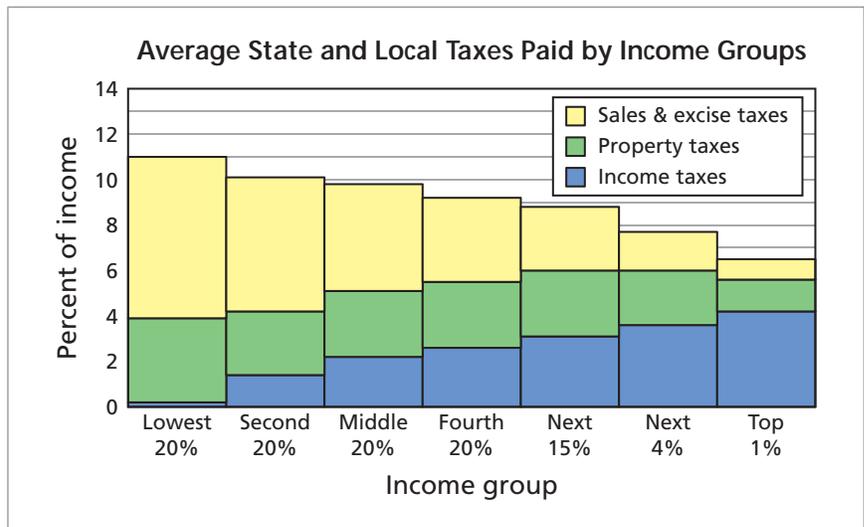


It would be difficult for a country to openly establish a tax policy that attempts to tax poor people more punitively than rich people. Instead, taxes that are considered regressive, such as sales tax, are often levied as a flat tax. It is only in analyzing the consequences of the tax that the tax is determined to be regressive.

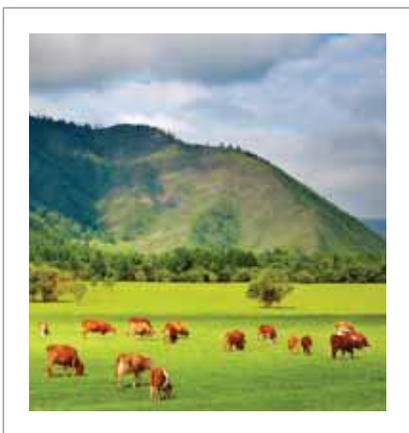
EXAMPLE 4 Identifying Types of Taxes

The graph shows the average state and local taxes paid by different income groups. Use the graph to discuss whether the three types of taxes are regressive, flat, or progressive.



SOLUTION

- a. **Sales and excise taxes:** Although these taxes are not explicitly written to be regressive, they end up being classified that way in practice. The graph shows that as your income increases, the percent of your income that goes to sales and excise taxes decreases.
- b. **Property taxes:** Although property tax is considered by some people to be regressive, for the vast number of Americans, it is a flat tax. The reason for this is that as a person’s income increases and he or she buys a larger home, the assessment of the person’s property generally increases.
- c. **Income taxes:** Although some states have a flat income tax system, the majority have a progressive income tax system (see Section 5.2). The result is that, on average, people with greater incomes tend to pay a greater percent of their income toward state income tax.



In 2010, there were about 2.2 million farms in the United States. The average farm size was about 418 acres. Farms are often inherited from family members.

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Discuss the following claim. Do you agree or disagree? Explain your reasoning.

Estate taxes are regressive taxes. They hurt farmers who want to pass their farms on to their children.