Mauro Vargas Jr

Midterm 3 Extra Credit (Seven Percentage Points)

Read chapter 12 and answer each of the following questions. Due at the beginning of class on Tuesday Dec. 4. Answers must be typed and numbered; handwritten answers will not receive credit. If upon reading your answers I determine that you did not read the chapter, you will not receive the extra credit points.

1. Over the past century, has the government’s tax revenue grown more or less slowly than the rest of the economy?

**In 1902, the government collected only 7 percent of total income; in recent years, government has collected almost 30 percent. The economy’s income has grown and the government’s revenue from taxation has also grown even more.**

2. Explain how corporate profits are taxed twice.

**They are taxed once by the corporate income tax when the corporation earns the profits, and they are taxed again by the personal income tax when the corporation uses its profits to pay dividends to its shareholders.**

3. Why is the burden of a tax to taxpayers greater than the revenue received by the government?

**The resources devoted to complying with the tax laws are a type of deadweight loss. The government gets only the amount of taxes paid. By contrast, the taxpayer loses not only this amount but also the time and money spent documenting, computing, and avoiding taxes.**

4. Why do some economists advocate taxing consumption rather than income?

**Taxing income discourages people from working as hard as they otherwise might. Another inefficiency caused by this tax is that it discourages people from savings. Some economists advocate eliminating the current tax system’s disincentive toward saving by changing the basis of taxation. Rather than taxing the amount of income that people earn, the government could tax the amount that people spend. Under this proposal all income that is saved would not be taxed until the saving is later spent.**

5. What is the marginal tax rate on a lump-sum tax? How is this related to the efficiency of the tax?

An efficient tax system raises the revenue needed at the lowest possible cost to the tax payer. A lump sum tax rate, not marginal one being more efficient in cost of collection. Lump sum taxes are most likely most efficient once they have been paid, with no disincentive to earn extra income or achieve a higher profit since the tax liability does not grow.

6. Give two arguments why wealthy taxpayers should pay more taxes than poor taxpayers.

**The equity of a tax system should be divided among the population. One principle of taxation, called the** [**benefits principle**](javascript://)**, states that people should pay taxes based on the benefits they receive from government services. Another way is** [**ability-to-pay principle**](javascript://)**, which states that taxes should be levied on a person according to how well that person can shoulder the burden.**

7. What is the concept of horizontal equity and why is it hard to apply?

**Horizontal equity states that taxpayers with similar abilities to pay taxes should pay the same amount on taxes. The problem with this is that every house hold situation is unique , for example some households have different family sizes, marriage status, medical expenses, student debt making it difficult to say that they should pay the same amount on taxes for having similar abilities.**