

Instructions: Answer the following questions by choosing the correct answer, writing an answer in the space provided or on a separate sheet of paper.

1. In 2025, the South Carolina income tax reaches its highest bracket of 6.2% at an income of around \$17,300. For most people, this simply represents...
 - a. a flat tax of about 6%.
 - b. a trivial tax which does not affect their behavior.
 - c. the same thing as a 6.2% sales tax.

2. A progressive income tax is one in which...
 - a. Individuals with a lower income pay more tax dollars than people with higher income.
 - b. Individuals with a higher income pay a higher average tax rate (since they pay higher MTRs), compared to lower income people.
 - c. People with a low income pay a higher average tax rate, compared to those with higher income.

Suppose the government is considering adopting an income tax based on daily earnings, and there are two proposals for what the tax rate schedule should look like. These are listed in the columns below, (1) and (2). Use the information in the table to answer questions 3-5.

<i>Income</i>	<i>Marginal Tax Rate (schedule 1)</i>	<i>Marginal Tax Rate (schedule 2)</i>
\$0 – 10	10%	20%
\$11 – 20	30%	20%
\$21 – and above	80%	20%

3. Which tax rate schedule is “progressive”?
 - a. MTR schedule 1.
 - b. MTR schedule 2.
 - c. [neither 1 nor 2]

4. If you have income of \$30, what’s your approximate tax due under each schedule?
 - a. Schedule 1: \$12; Schedule 2: \$6
 - b. Schedule 1: \$24; Schedule 2: \$6
 - c. Schedule 1: \$80; Schedule 2: \$20
 - d. Schedule 1: \$40; Schedule 2: \$12

5. Would you expect any difference between the two tax rate structures, in terms of their effects on a person’s incentive to work harder to earn a higher income?
 - a. Neither tax rate structure should affect the incentive to work, since people need to earn income.
 - b. The MTRs listed in (1) would tend to discourage work and productivity, as marginal tax rates rise sharply as income rises.
 - c. The MTRs listed in (2) would discourage work and productivity; since the MTR does not rise with income, the worker is not likely to feel that they are helping society by paying their fair share of taxes.
 - d. What is Walker talking about? People love taxes! That’s the only reason people want to work – to pay taxes!

6. Merton Miller, a Nobel laureate in economics has written that if the current tax system was revised (e.g., changed to a flat tax or national sales tax), “armies of tax lawyers and accountants would lose their jobs and be forced to enter productive employment.” This sentiment reflects what idea from the lecture on taxes?
- Taxes are not fair.
 - Tax compliance costs are very high.
 - Taxes should be raised on wealthy people.
 - Republicans are corrupt.
 - The current tax system is the “least bad” tax system possible.
7. One of the big political debates related to income taxes is whether the rich pay their “fair share.” According to the handout on taxes, the top 1% of income earners pay about _____ of total federal income taxes.
- 1%
 - 10%
 - 25%
 - 45%
 - 97%
8. Thinking about the “fairness” issue mentioned above, in your opinion, how much *should the rich pay*? Specifically, what percentage of all income taxes do you think the top 1% of income owners should pay?

This is obviously an opinion question (since it deals with "fairness"). Whatever your answer is, I'd recommend thinking about it in the context of democrats' talking point, "the rich should pay their fair share." What percent of all income taxes would be "fair" for the top 1% of income earners to pay?

9. The point of the Laffer curve (from the “Chapter 13: Selected Tax Figures” sheet I handed out in class) is that...
- the federal government should set the marginal tax rate to the highest level people are willing to pay.
 - high marginal income tax rates can discourage work, and lead to lower income tax revenue.
 - the current rate of 37% is too low; it should be raised back to 39.6%.
 - if President Trump tries to reduce marginal tax rates, it will harm the economy.
10. Suppose you have taxable income of \$50,000. If your goal is to minimize the income taxes you pay, which would you prefer: a \$2,000 tax credit or a \$2,000 tax deduction?
- Credit
 - Deduction
 - [They're equivalent.]

I didn't really go over this in the lecture... If there's a \$2,000 child tax credit, your tax owed decreases by the \$2,000. If, instead, you take advantage of a tax deduction of \$2,000 (say, by installing a new, \$2,000 efficient furnace), it decreases your taxes owed by your MTR. So if you're in the 22% tax bracket, it would be \$2,000 x 22%, or \$440. A tax CREDIT is much better than a tax DEDUCTION!