

# Progressive proportional and regressive tax system

[Economics](#), [Tax](#)



Throughout history, every organized society had some form of government. In free societies, the goals of government have been to protect individual freedoms and to promote the well-being of society as a whole. To achieve those goals and meet the expenses all governments need some revenue, and that revenue is raised mostly through taxes. In USA, governments levy several different types of taxes on individuals and businesses. The Federal Government relies mainly on income taxes for its revenue. State governments depend on both income and sales taxes. Most county and city governments use property taxes to raise their revenue.

Nearly all tax structures contain two basic parts: the tax base and the tax rate. The tax base is the amount to which the tax rate is applied to determine the tax due. The tax rate is basically a percentage rate applied to the tax base, and it can be progressive, regressive, or proportional.

Progressive taxation refers to a tax that takes a larger percentage from the income of high-income people than it does from low-income people. And this is a basic principle underlying the income tax laws of the United States - people should be taxed according to their "ability to pay". For example, a person making \$200,000 in a year might pay 30% of his income in taxes (\$60,000), while someone with an income of \$30,000 might pay only a 10% tax rate (\$3,000 in taxes). Most income taxes in US are considered progressive. What can be disadvantage of progressive tax? Well, some individuals may think that progressive tax is discouraging the success. Why to work hard, and try to increase income and wealth, when half of that will be "taken away" in taxes!? It is simply unfair! Because the taxes are then

redistributed to poorer individuals through government aid programs, some see this as socialism.

But despite opposition most economists believe that progressive taxes are the best form of taxation, because the lower class individuals, who are already socially and economically disadvantaged, are shielded from large tax burdens. A tax system may also be regressive or proportional. A proportional tax system, called sometimes flat tax, is one where the rate of tax is the same for all taxpayers, regardless of the level of their tax base. Example of proportional taxes may be state and local sales taxes, real estate taxes, personal property taxes, custom duties etc.

Advantages of flat tax can be its simplicity and predictability. Opponents declare that proportional tax is in reality a regressive tax, as both the lowly - paid and highly - paid individuals consume products. No matter if they want to or not, they have to spend a certain amount on necessities like food, clothing, or pay property taxes, and flat tax takes up a higher percentage of an individual's budget that has a low income, than it does for an individual with a higher income. A regressive tax system is one where a tax rate decreases with an increase in the income.

The example of regressive tax is Social Security (FICA), because the maximum amount of wages subject to the Social Security tax for 2009 is \$106,800. After an individual reaches \$106,800, no more FICA tax is withheld. No matter what structure the tax system has - progressive, regressive or proportional, most people don't enjoy paying at all.

Unfortunately taxes are inevitable, and refusing to pay them does not make sense. Thanks to them we can drive on the paved streets, seek the justice in court system, send children to public schools and be able to wake up every morning feeling safe.