

# Economics Chapter 9 Test Review

## Terms:

- sin tax** - relatively high tax designed to raise revenue and discourage consumption of a socially undesirable
- progressive tax** - tax in which the percentage of income paid in tax rises as the level of income rises.
- FICA** - tax levied on employers and employees to support Social Security and health care
- I.R.S.** government agency.
- estate tax** - tax on the transfer of property when a person dies.
- tax loophole** - exception or oversight in the tax law allowing a taxpayer to avoid paying certain taxes.
- sales tax** - general state or city tax levied on a product at the time of sale
- regressive tax** - tax in which the percentage of income paid in tax goes down as income rises
- proportional tax** - tax in which the percentage of income paid in tax is the same regardless of the level of income
- value added tax** - tax on the value added every stage of the production process

## Concepts:

- What created the individual income tax we have today?  
16th Amendment
- What does 'incidence of a tax' mean?  
tax burden between buyers and sellers
- How do you calculate if a tax is regressive, progressive or proportional?  
to the way in which the tax burden changes as income changes.
- What does FICA pay for?  
Social Security and Medicare
- What economic effects can taxes have?  
negative supply effect
- What are the three criteria for taxes to be effective?  
equity, simplicity, and efficiency.
- How is the ability-to-pay principle of taxation different from the benefit principle of taxation?  
if you have to pay for it, you get something out of it.
- What type of tax is the federal individual income tax? federal corporate income tax? state sales tax?  
Progressive
- What is 'indexing' and why is it used?  
a statistical measure of changes in a securities market.
- Why was the gift tax created?  
to give gifts to people still living.
- What are the largest sources of revenue for the federal gov't? state gov'ts? local gov'ts?  
individual income taxes, inter gov. revenue, & intergov. revenue.
- What are the three major federal taxes?  
social security, individual income taxes, corporate income.
- How do high rates of taxation affect businesses?  
businesses can pass some of this tax onto consumers in higher prices.
- What is BOTH an advantage and a disadvantage of the VAT?  
It is hard to avoid and they tend to be virtually invisible
- The VAT would compete with which tax?  
income tax
- Was there ever a federal income tax before 1913?  
no
- Why would someone receive a tax 'refund'?  
if the tax they owe is less than the sum of the total amount of the withholding taxes and estimated taxes that they pay.
- What is the difference between a W-2 form and form 1040 (EZ)?  
1040 is your personal tax return and W-2 is a form used by employer to report your wages
- Does an individual pay federal income tax on EVERY dollar they earn?  
no
- What did the Taxpayer Relief Act of 1997 do?  
reduced tax rates and offered new tax credits for taxpayers and the